

Internal Audit Report

2018/19



St. Helens Council

Merseyside Recycling & Waste Authority Resource Recovery Contract

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Assignment Control

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St. Helens Council

Merseyside Recycling and Waste Authority (MRWA)

Resource Recovery Contract

1.1 Introduction

An audit review of the management arrangements in place for the Resource Recovery Contract (RRC) was undertaken as part of the 2018/19 Internal Audit Plan. The purpose of the Audit was to provide an assessment of the adequacy of the control environment established, to ensure that objectives are achieved and risks are adequately managed.

1.2 Scope

The review considered the arrangements in place to ensure that payments made are in accordance with the contract and that performance monitoring and reporting mechanisms are robust.

The end of year annual reconciliation process for 2017/18 remained pending at the time of the recent audit and as such will be considered as a separate review in 2019/20.

1.3 Background

Context

MRWA have a contract with Merseyside Energy Recovery Ltd (MERL) for the operation of the Resource Recovery Contract which is sub-contracted to Suez.

The operation of the contract consists of municipal residual waste being delivered to the Rail Transfer Loading Station (RTLS) at Kirkby for transfer to the Energy from Waste (EfW) plant at Wilton on Teeside; with the exception of occasional contingency disposal arrangements coming into force for planned or emergency shutdown of the EfW plant.

Budget

The total budget for the Service (2018/19) is £41.9m.

1.4 Audit Opinion

Internal Audit contribute to the overall governance of the Authority 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 Agreed Action

Actions to address the recommendations made in this report are included in section 4, which has been agreed with the relevant Managers.

Merseyside Recycling and Waste Authority

Resource Recovery Contract

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

- 1.** To confirm that contract payments are in accordance with the Payment Mechanism and are accurate, legitimate and accounted for appropriately.
- 2.** To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.
- 3.** To ensure that appropriate and effective budget and performance monitoring arrangements are in place.

Findings Summary 3

Merseyside Recycling and Waste Authority**Resource Recovery Contract**

The main findings from our review are highlighted below, and our detailed findings and recommendations are included in Section 4.

3.1 Areas of Good Practice

- The Monthly Service Report and supporting data is subject to thorough scrutiny and review to ensure the accuracy of the monthly payments.
- The contract monitoring arrangements are generally sound.

3.2 Key Areas for Development

- Whilst the Wilton plant has been subject to monitoring visits, the coverage to date has not fully met the originally intended scope.

3.3 Recommendation Summary

In order to assist management in using our reports, we categorise our recommendations according to their level of priority, please see section 5 for definitions.

This table details the number of recommendations made for each level of priority.

Low priority recommendations are provided at the exit meeting, and are not included in this report.

Priority	Number
High	0
Medium	1
Low	1

REF.	FINDINGS	IMPLICATIONS / RISKS	RECOMMENDATION	MANAGEMENT RESPONSE
Control Objective 1: To confirm that contract payments are in accordance with the Payment Mechanism and are accurate, legitimate and accounted for appropriately.				
1	We confirmed that there are processes in place to verify the accuracy of the Monthly Service Report and supporting data submitted by the contractor and to challenge and resolve any discrepancies. From sample testing we established that payments were accurate, fully supported by base data and in accordance with the Payment Mechanism Schedule of the Contract. We further verified that payments had been appropriately certified and that a clear segregation of duties had been applied.	All risks appropriately controlled.	No recommendations made.	Not applicable.

Control Objective 2: To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.				
2	<p>It was verified that the contract monitoring arrangements are generally sound, providing for a high level of dialogue with the contractor on an ongoing basis, including the convening of formal monthly meetings. Key Performance Indicators (KPI's) are monitored in accordance with the contract and performance deductions applied as applicable.</p> <p>There are procedures in place to underpin the required site inspection processes at the Rail Transfer Loading Station and the Wilton plant. It was identified that whilst visits to the Wilton plant have been undertaken at the expected frequency, and the findings suitably reported to senior management, the content of coverage in the first full year of operation has not fully achieved the original intended scope.</p>	<p>Although the scope of coverage for the Wilton plant inspections is suitably defined, any shortfall in coverage potentially impacts on the overall effectiveness of monitoring arrangements.</p>	<p>A gap analysis of the Wilton inspection process is required in order to determine shortfalls in coverage and inform a decision on future scope and provision.</p> <p>Priority: Medium</p>	<p>Agreed Action: MRWA to undertake a gap analysis.</p> <p>Responsible Officer: Estates Manager.</p> <p>Timescale: 1st October 2019</p>
Control Objective 3: To ensure that appropriate and effective budget and performance monitoring arrangements are in place.				
3	<p>It was confirmed that there are appropriate reporting arrangements in place to facilitate senior management oversight of the contract. It was also verified that reports to the Authority include commentary on contract performance and the budgetary position, as well as matters of significance such as the Contract Drafting Clarifications required to the Payment Mechanism (as reported in November 2018).</p>	<p>All risks appropriately controlled.</p>	<p>No recommendations made.</p>	<p>Not applicable.</p>

Assurance Levels

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.

Recommendation Priority

High	Issues that are fundamental to the system of internal control for the area subject to review.
Medium	Issues where improvements in control are required to reduce the risk of loss, error, irregularity or inefficiency.
Low	Issues that merit attention and would improve the overall control environment.