

# Internal Audit Report 2018/19



St. Helens Council

## Merseyside Recycling and Waste Authority Veolia Contract

### Contents

	Section	Page
Executive Summary	1	2
Objectives	2	4
Findings Summary	3	5
Detailed Findings	4	6
Definitions	5	7

### Assignment Control

	Date
Draft Report Issued	2 <sup>nd</sup> April 2019
Management Responses Received	2 <sup>nd</sup> April 2019
Senior Management Approval	2 <sup>nd</sup> April 2019
Final Report Issued	2 <sup>nd</sup> April 2019

### Distribution

For information:

Carl Beer	Chief Executive
Peter Williams	Director of Finance
Ian Stephenson	Assistant Director – Operations
Gary Taylor	Contracts Manager
Nicola Hodge	Data and Performance Manager

Ref:	MRWA01
Status:	FINAL
Date Published:	2 <sup>nd</sup> April 2019

Report Prepared by:	Nicola Colquitt	Senior Auditor
	Barbara Aspinall	Audit Manager



COMPLIANCE WITH THE PUBLIC  
SECTOR INTERNAL AUDIT STANDARDS  
NWCAE GROUP FEBRUARY 2018



## St. Helens Council

### **Merseyside Recycling and Waste Authority**

#### **Veolia Contract**

##### **1.1 Introduction**

An audit review of the Veolia Contract 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 compliance with the payment mechanism for both expenditure and income and contract monitoring arrangements.

##### **1.3 Background**

###### **Context**

Merseyside Recycling and Waste Authority (MRWA) is a member of the Merseyside and Halton Waste Partnership (MHWP), which covers six of the Local Authorities in the North West. All members of the MHWP have the responsibility of tackling the effective delivery of sustainable municipal waste management in Merseyside.

Veolia are responsible for the operations of 14 Household Waste Recycling Centres (HWRCs), two Materials Recycling Facilities (MRFs) and four Waste Transfer Stations through the Waste Management and Recycling Contract.

Along with providing these facilities, Veolia are also committed to providing waste education and helping residents to reduce the amount of waste they produce.

##### **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:

**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.

**1.5 Agreed Action**

There have been no actions arising from this review.

## Control Objectives 2

### **Merseyside Recycling and Waste Authority**

#### **Veolia 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.
2. Income is identified promptly, is accurately calculated and is appropriately deducted from the monthly contract payment.
3. To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.

# Findings Summary 3

## Merseyside Recycling and Waste Authority

### Veolia 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

- Robust validation checks are carried out to ensure accuracy of the monthly payment claims.
- Income due is accurately calculated, identified promptly and is deducted from the monthly payment appropriately.
- Charges to Halton Borough Council are accurately calculated and is recovered in a timely manner.
- The contract is monitored regularly to ensure it is performing to expected standards.

#### 3.2 Key Areas for Development

- There are no areas for development, and as such, no recommendations have been made.

#### 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.

The control framework for this review is robust, and so no recommendations have been made.

**Veolia Contract**

IMPLICATIONS/RISKS	FINDINGS
<b>Control Objective 1: To confirm that contract payments are in accordance with the Payment Mechanism, and are accurate, legitimate and accounted for.</b>	
Payments made to contractors is not accurate.	A sample of three months of payments to Veolia was selected and checked to ensure that amounts had been accurately calculated in line with the Contract Payment Mechanism. This involved recalculating all elements of the monthly charge ensuring that appropriate rates had been applied, and that these had been correctly indexed. Testing confirmed that all three months had been appropriately calculated.
<b>Control Objective 2: Income is identified promptly, is accurately calculated and is appropriately deducted from the monthly contract payment.</b>	
MRWA does not receive all income due in line with contract requirements.	Testing confirmed that income has been appropriately calculated and deducted from the monthly contract payment as expected.  Recharges to Halton Borough Council have been correctly calculated, and invoices raised promptly.
<b>Control Objective 3: To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.</b>	
Performance failures are not recorded, and monetary penalties are not enforced as per the contract conditions.	From the sample of three months tested, performance deductions were applied in two instances. For both, appropriate failure points had been assigned, had been appropriately indexed and included in the payment submission. It was evident that these are checked on a monthly basis to ensure that deductions are applied appropriately.
Senior Managers and Authority members may not be aware of the performance of the contract and overspends may not be identified and acted upon.	Senior Managers and Authority Members are provided with regular budget and performance reports in order to ensure that they are fully aware of the position of the Contract.

## Assurance Levels

<b>High Assurance</b>	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.
<b>Substantial Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>Minimal Assurance</b>	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

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