



## **St. Helens Council**

### **Audit Report 2008/09**

#### **Merseyside Waste Disposal Authority**

#### **Review of the Waste Contract Arrangements for Contract 1, 2 & the Materials Recovery Facility (MRF)**

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## St. Helens Council

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### EXECUTIVE SUMMARY

#### Merseyside Waste Disposal Authority

#### Review of the Waste Contracts 1,2, & the Materials Recovery Facility (MRF)

##### Scope

Merseyside Waste Disposal Authority (MWDA) is subject to an annual internal audit review. The current year's internal audit review has focused on the effectiveness and adequacy of the controls within the systems operated for:

- I. Payments under Contract 1;
- II. Payments under Contract 2; and
- III. Payments for use of the Material Recovery Facility (MRF)

##### Background

The authority is responsible for arranging for the disposal of household waste accumulated by the operation of Contract 1 with the five Waste Collection Authorities of Merseyside. Contract 2, relates to the Household Waste Recycling Centres (HWRC) around Merseyside.

The approximate cost of operating Contract 1 & 2 for the financial year 2008/09 excluding gate fees and landfill tax was:-

Contract 1     £16.9 Million;

Contract 2     £7.4 Million.

The MRF has been in operation for approximately 18 months and its primary function is to sort and separate dry recyclable materials for recycling. Following sorting of the various materials they are compressed into compact packages to maximise the quantity of material that can be transported and sold to recycling companies.

Under the MRF arrangements with Contract 1, materials recovered for recycling are treated in one of three ways by Mersey Waste Holdings Limited (MWHL):

- i) Items that have been recovered and have a monetary value are sold on by Mersey Waste Holdings Limited and a credit recorded on the Contract 1 at month end;
- ii) Items that have been recovered, but have no monetary value or disposal costs are passed on to the appropriate contractors; and

- iii) Items that have been recovered recycled, but due to market forces have a cost to dispose of them are recorded on the Contract 1 at month end as a debit.

To ensure that the Authority receives optimum prices for recyclable material, MWHL are required to continuously review the local recycling market to identify suitable processors to accept materials.

However, during the recycling process through either contamination of recycled products, or materials that are ineligible for recovery, there will be a small amount of residual waste that will require landfill thereby incurring landfill costs/landfill tax.

We are aware that these contracts will cease to exist from the 31<sup>st</sup> of May 2009 and that a new contractual arrangements will be in place as of the 1<sup>st</sup> of June 2009.

We intend to undertake further work in 2009 to ensure that the control environment in relation to new contract procedures remain robust and fit for purpose.

### **Audit Opinion**

In our opinion appropriate systems are in place and an adequate framework of internal control is present and operating effectively. We consider that the recommendation within this report will improve contract payment control and certification procedures.

### **Key Issues**

There are no key issues arising from this review.

### **Agreed Action**

An Action Plan is attached which has been agreed with MWDA management.

## INTERNAL AUDIT REPORT

### Review of Waste Contracts 1,2, & the MRF

#### 1.0 Objectives

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

1. To ensure that all Contract 1 payments are accurate, legitimate and accounted for appropriately.
2. To ensure that all Contract 2 payments are accurate, legitimate and accounted for appropriately.
3. To ensure that all MRF contract adjustments, via Contract 1, are accurate, legitimate and accounted for appropriately.

#### 2.0 Conclusions & Recommendations

##### 2.1 Control Objective - That all Contract 1 payments are accurate, legitimate and accounted for promptly.

This control objective is being met but we have recommended a further area for improvement.

Sample testing of transactions in relation to a three month period in relation to Contract 1 payments was undertaken with reference made to the seventeen point control check list utilised by the Authority to verify accuracy and legitimacy of payments.

We noted the control check list to have been certified by the Corporate Service Officer and we considered a three month sample and confirmed by way of review and sample, that prior to the payment being made anomalies had been identified and adequate supporting information provided by MWHL.

The review confirmed that Contract 1 payment certificates within our sample had been subject to the application of the control grid stamp to confirm appropriate checks and certification prior to payment. However, we noted that the responsible officer for the contract, the Contract Manager, is not required to provide final certification for payment to confirm that he is satisfied as to the adequacy of control checks and accuracy of payment.

Recommendation 1
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That the Contract Manager certifies contract payment certificates to confirm review prior to payment.
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##### 2.2 Control Objective - To ensure that all Contract 2 payments are accurate, legitimate and accounted for appropriately.

This control objective is being met but we have recommended a further area for improvement.

A three month sample of payments was reviewed and we confirmed that the control check list utilised by the Authority had been signed by the Corporate Services Officer to confirm checks had been undertaken.

We confirmed that queries identified by the Officer are forwarded to MWHL for clarification and resolving and appropriate amendments to relevant payment certificate made where appropriate.

From our sample we confirmed that the control grid stamp had been applied to payment certificates and appropriate officers had signed to confirm they had undertaken control checks. We were satisfied as to the accuracy of payments made within our sample.

As noted with Contract 1, in our opinion control would be enhanced if proposed payments were reviewed and certified by the Contracts Manager.

**2.3 Control Objective - To ensure that all MRF contract adjustments via Contract 1 are accurate, legitimate and accounted for appropriately.**

This control objective is being met.

We noted that, within the Contract 1 payment certificates sampled, the MRF monthly recharge was included and as part of the review we confirmed information maintained by the Contract Manager to ensure accuracy of income due and claimed.

The information is supplied by MWHL, on a monthly basis, by way of input tonnage from constituent authorities subsequently forwarded to recycling companies from whom income is potentially generated.

We confirmed that the Contract Manager undertakes a monthly reconciliation of tonnage from the MRF weighbridge to monthly contract adjustments where income is received, or payment is due for disposal where items cannot be recycled.

### 3.0 Action Plan

Rec. No.	Recommendation	Responsible Officer	Agreed Action and date of implementation
1	That the Contract Manager certifies contract payment certificates to confirm review prior to payment.	Contract Manager	October 2009-09-21