



St. Helens Council

Audit Report 2012/13

Merseyside Recycling & Waste Authority

Waste Contract Arrangements

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St. Helens Council

EXECUTIVE SUMMARY

Merseyside Recycling & Waste Authority (MRWA)

Waste Contract Arrangements

Scope

In accordance with the 2012/13 Audit Plan a review of the following areas was undertaken:-

1. Verification of the accuracy of the monthly payment to Veolia pursuant to the Waste Management and Recycling Contract (WMRC);
2. Verification of the accuracy of the monthly payment pursuant to the Landfill Contract.

This report summarises the findings of the audit work undertaken with a view to providing an assurance that the financial controls in operation are operating effectively.

Background

Waste Management and Recycling Contract

Under the WMRC, Veolia Environmental Services are responsible for the management of waste on behalf of MRWA as follows:-

- i. Operation of four Transfer Stations including associated transport of waste to disposal points and external processing facilities;
- ii. Operation of the fourteen Household Waste Reception Centres (HWRC's) on Merseyside (and two HWRCs in Halton) including associated transport of waste to disposal points and making arrangements for the collection of recyclable materials for processing;
- iii. Operation of two Material Recovery Facilities (MRF's) including associated transport of waste to disposal points and external processing facilities; and
- iv. Ensuring appropriate payments are made or income received for the processing of waste at end markets.

Landfill Contracts

MRWA currently disposes of waste via three landfill disposal contracts. One of these contracts (Landfill Agreement – Deed of Amendment and Restatement) is provided by Mersey Waste Holdings Ltd (MWHL) via the Pass Through Agreement. The following summarises the three landfill contracts currently in place:

- i. Landfill Agreement – Deed of Amendment and Restatement known as 3C Arpley Contract (up to 370,000tpa) between MWHL and FFC Recycling (UK) Ltd accessed via MRWA;
- ii. Landfill Services Contract (Top up contract to 3C Arpley Contract) between MRWA and FFC Recycling (UK) Ltd; &
- iii. Landfill Services Contract between MWRA and Sita UK Ltd for disposal of Cement Bonded Asbestos (Hazardous Waste).

Waste Management Contracts 2012/13	Budget figures 2012/13	Actual Costs April to Dec 2012
<i>WMRC</i>	£17,409,479	£13,739,421.71
<i>Landfill 3"C" Contract (up to 370,000 tpa)</i>	£27,988,704	£18,576,571.56
<i>Landfill Top Up Contract</i>	£6,701,740	£6,658,185.76
<i>Hazardous Waste Contract</i>	£38,410	£17,981.04
Total	£52,138,333	£38,992,160.07

Audit Opinion

In our opinion, appropriate key controls are in place and are operating effectively with regard to the management of the various waste contracts. Testing confirmed that there are appropriate controls in place to ensure that payments made are in accordance with the rates, terms and conditions of the relevant contract.

Although we have made a number of recommendations, these do not represent significant weakness within the existing control framework or indicate that the interests of MRWA and other stakeholders are open to undue risk.

Key Issue

No key issues were identified during this review.

Agreed Action

The recommendations and action plan have been agreed with the Director of Finance.

INTERNAL AUDIT REPORT

Waste Contract Arrangements

1.0 Objectives

To review the controls in place in relation to the following:-

1. To ensure that all contract payments to Veolia are pursuant to the WMRC and are accurate, legitimate and accounted for appropriately;
2. To ensure that all contract payments to landfill service providers are accurate, legitimate and accounted for appropriately;

2.0 Conclusions & Recommendations

2.1 Control Objective – To ensure that all contract payments to Veolia are pursuant to the WMRC and are accurate, legitimate and accounted for appropriately.

- 2.1.1 This control objective is being met in the main.
- 2.1.2 As part the time of the review, we sampled 20% of the monthly contract payment claims for the financial year 2012/13. The months sampled were May and July 2012 and we confirmed that the claims had been received by the 10th day of the following month, together with all supporting data.
- 2.1.3 MRWA's Performance Support Officer imports the electronic data into the appropriate spreadsheet and any anomalies are highlighted. All anomalies identified are e-mailed to Veolia for clarification. The Assistant Contract Manger carries out checks on the accuracy of the claim and e-mails any additional queries identified to Veolia for clarification.
- 2.1.4 Testing confirmed that anomalies have been reported to Veolia and that full explanations have been received. The claim was then amended according to the outcome of the queries and, once all queries have been resolved, Veolia submitted a revised claim for payment.
- 2.1.5 The review identified an error with the Monthly Tonnage Adjustment Rate spreadsheet produced and maintained by Veolia. The rates applied were incorrect for April, May and June, however the Assistant Contract Manager informed Audit that he had identified the error when verifying the April claim, which was paid in July. It was agreed with Veolia that the claim would be paid using the incorrect rates and an adjustment carried out once the rates had been corrected. We confirmed that the adjustment of £19,829 was made in July 2012.
- 2.1.6 There was no supporting information on file with the April claim to evidence that this error had been identified and the arrangements agreed by management with regard to the payment adjustment. All paperwork relating to the adjustment for the three months was subsequently filed with the July claim. It is our opinion that in order to provide a suitable audit trail, staff involved within the payment process should retain supporting information relating to decisions to adjust identified errors or omissions.
- 2.1.7 Before payment can be made, a checklist is completed, signed and countersigned to confirm that all checks have been completed and the payment is correct. The Performance Report Officer completes the payment documentation and relevant officers sign.

- 2.1.8 Testing confirmed that both claims had a completed checklist that had been signed by the Performance Support Officer and countersigned by the Assistant Contracts Manager. We confirmed that the officers who had signed the payment forms were on the approved authorisation list and that the payment details agreed to the supporting documentation.
- 2.1.9 The Assistant Contract Manager is currently in the process of introducing a WMRC Payment Task Checklist to ensure that all monitoring checks undertaken by the Compliance Officers are completed and evidenced prior to the claim being paid. The introduction of this checklist will ensure an adequate audit trail is in place to confirm all required tasks have been completed.
- 2.1.10 Finally we confirmed that the Business Support Manager undertakes regular reconciliations of the monthly payment to Veolia to the relevant Financial Information System (FIS) codes. A supporting spreadsheet is maintained to confirm that this is being done.

Recommendations

1. *That all supporting documentation with regard to decisions in relation to agreed payment adjustments is retained to ensure that an audit trail is available.*
2. *When the WMRC Payment Task Checklist is completed it should be incorporated into the monthly payment process.*

2.2 Control Objective - To ensure that all contract payments to landfill service providers are accurate, legitimate and accounted for appropriately.

- 2.2.1 Sample testing confirmed this control objective is being met.
- 2.2.2 Within the two month sample checked, we noted an additional payment to the Arpley Contract for monies owed to WRG for income not collected. This income related to the Full Cost settlement.
- 2.2.3 We confirmed that an adequate level of check to supporting documentation is performed on a monthly basis and evidence retained.
- 2.2.4 The review confirmed that any discrepancies have been highlighted and forwarded for clarification. On receipt of clarification, the claim was adjusted appropriately and the supporting documentation retained on file.
- 2.2.5 As part of the Assistant Contract Manager's role, he is responsible for monitoring the monthly tonnage for each contract via a tonnage spreadsheet. We confirmed that suitable controls are in place to ensure that the most beneficial option for the disposal of waste to landfill is obtained.
- 2.2.6 Finally we confirmed that contract rates had been applied correctly, calculations were accurate and appropriate authorisation was evident on the documentation.

3.0 Action Plan

Merseyside Recycling & Waste Authority

Rec. No.	Recommendation	Responsible Officer	Agreed Action and Date of Implementation	Actual Implementation Date
1	That all supporting documentation with regard to decisions in relation to agreed payment adjustments is retained to ensure that an audit trail is available.	Assistant Contracts Manager	February 2013	
2	When the WMRC Payment Task Checklist is completed it should be incorporated into the monthly payment process.	Assistant Contracts Manager	April 2013	