



St. Helens Council

# Internal Audit Report 2015/16

## Merseyside Recycling & Waste Authority Waste Disposal Contract – Final Claim 2014/15

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Date to Next Authority Meeting

**20 November 2015**



## St. Helens Council

### **Merseyside Recycling & Waste Authority Waste Disposal Contract – Final Claim 2014/15**

#### **1.1 Introduction**

An audit review of Final Claim 2014/15 was undertaken as part of the 2014/15 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 Internal Audit function of Merseyside Recycling & Waste Authority (MRWA), is currently provided by St Helens Council under a Service Level Agreement (SLA), that is reviewed and signed on an annual basis. Under the signed SLA, St Helens Council will provide the Internal Audit coverage for the period April 2015 to March 2016. An Audit Plan has been agreed with the Director of Finance (MRWA).

As part of this years plan, a review of the Final Claim for 2014/15 for the Waste Management Recycling Contract has been undertaken to provide an assurance of the accuracy of the final payment.

#### **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:-

- i. Operation of four Transfer Stations including associated transport of waste to disposal points and external process facilities;
- ii. Operation of the fourteen 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;
- 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. Mersey Waste Holdings Ltd (MWHL) provides one of these contracts (3C Arpley Contract). The following summarises the three landfill contracts currently in place:

- i. 3C Arpley contract (up to 370,000tpa) between MWHL and Waste Recycling Group (WRG) accessed via MRWA;
- ii. Landfill Services Contract (Top up contract to 3C Arpley Contract) between MRWA and WRG; &
- iii. Landfill Services Contract between MRWA and Sita UK Ltd for disposal of Cement Bonded Asbestos (Hazardous Waste).

At year-end Veolia are required under the WMRC to provide information within the March claim to support recycling and diversion performance achieved during the contract year and associated recycling material income. This information will support any bonus payments and/or deductions and any monies due to MRWA under the WMRC.

### Greater Manchester Waste Disposal Contract

An Inter Authority Arrangement (IAA) between MRWA and Greater Manchester Waste Disposal Authority (GMWDA) is in place to manage approximately 80,000 tonnes per annum of Residual Municipal Solid Waste (RMSW) for a period of two years starting in April 2013. The Authority waste is delivered to the mechanical biological treatment (MBT) plants within the area of GMWDA where the waste is treated and separated into recyclable / landfill and disposed of accordingly.

### FCC Interim Framework Contract

Municipal waste from MRWA is taken to a treatment facility at Stretton Way, Huyton Liverpool. The waste is processed to produce a "solid recovered fuel" which is sent to energy facilities. Approximately 84% of the delivered waste is diverted from landfill by the process.

## Budget

The following table details contract values:

<b>Contract</b>	<b>Annual cost of Waste Management Contract 2014/15 Excluding VAT (£)</b>
WMRC	23,107,602
Landfill 3C Contract (up to 370,000tpa)	29,158,488
Hazardous Waste Contract	22,440
FCC Interim Framework Contracts	3,291,999
GMWDA Section 101 Agreement	3,012,457
<b>Total</b>	<b>58,592,986</b>

## **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:

**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 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

### Merseyside Recycling & Waste Authority

#### Waste Disposal Contract – Final Claim 2014/15

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. Landfill Contracts & Hazardous Waste - All contract payments are accurate, legitimate and accounted for appropriately.

## 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 nine out of ten expected controls under review were in place and working effectively.

- 3.1.1** Earlier in the year, we sampled two monthly contract payments, (April and September) and confirmed that the Performance Report Officer, on receiving the data from Veolia, undertakes a number of checks and raises any anomalies with Veolia.

Since February 2014, MRWA have amended the way the claim is paid as they no longer wait for the whole claim to be verified before a payment is provided, but instead pay the Monthly Service Fee and Monthly Guaranteed Third Party Income on receipt of each claim.

Once the Performance Report Officer has completed his data verification, a list of queries is forwarded to Veolia by the Compliance Officer, and verification sought. Once all the queries have been resolved, the Compliance Officer will then amend the payment schedule and prepare the payment.

The Compliance Officer left the Authority in July 2015, and as a consequence, the Authority has restructured the Contract Team and the Performance Report Officer will now undertake the payment element of the contract as well as verifying the data provided.

We consider that the new structure could compromise the level of separation of duty within the Contracts Team and the introduction of an independent check by the Contract Operations Manager would improve internal controls. This independent check will ensure that an adequate separation of duties is in place and working effectively.

We confirmed that all year-end adjustments performed within the March monthly contract payment were accurate and supported by appropriate supporting documentation.

All payment certificates within our sample had been subject to the application of the control grid stamp to confirm appropriate checks and had been certified prior to payment. The Contract Operations Manager signs to confirm that he has checked and agreed payment.

**Recommendation**     *The Waste Data Checklist is amended to include a verification line to be completed by the Contract Operations Manager to evidence checks undertaken.*

- 3.2 Control Objective:** Landfill Contracts & Hazardous Waste - All contract payments are accurate, legitimate and accounted for appropriately.

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

The review has confirmed that the Performance Report Officer verifies the data received from Veolia and then the Contract Operations Manager will carry out a number of checks prior to submitting the invoice for payment.

We confirmed that adequate controls are in place to ensure that there is appropriate separation of duty in place and that payments are authorised and certified for payment and the Contract

**Appendix 1**

Operations Manager is signing the payment document to confirm payment is accurate.

As part of the review we satisfied ourselves that there was appropriate supporting documentation to provide an adequate audit trail for the waste disposed of via landfill.

We confirmed that all hazardous waste payments for March were accurate and supported by appropriate supporting documentation.

## 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;

<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.

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

**Merseyside Recycling Waste Authority**  
**Waste Disposal Contract – Final Claim 2014/15**

**Action Plan 4**

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
1	The Waste Data Checklist is amended to include a verification line to be completed by the Contract Operations Manager to evidence checks undertaken.	Contract Operations Manager	Implemented	Implemented