



St. Helens Council

Internal Audit Report 2017/18

Merseyside Recycling & Waste Authority Household Waste Recycling Centres

	Section	Page
Executive Summary	1	2
Objectives	2	5
Findings & Conclusions	3	6
Action Plan	4	12

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St. Helens Council

Merseyside Recycling & Waste Authority

Household Waste Recycling Centres

1.1 Introduction

An audit review of Household Waste Recycling Centres (HWRC's) was undertaken as part of the 2017/18 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 for contract monitoring, the gatekeeping arrangements in respect of the operation of the Permit Scheme, Trade Waste and performance monitoring.

The review also included direct observation of a sample of HWRC's to form an opinion as to the adequacy of the access control arrangements.

1.3 Background

Context

There are 14 HWRC's in operation across Merseyside offering household waste and recycling facilities. To assist in preventing trade waste from entering the household waste facilities a Commercial Vehicle Permit Scheme for commercial-type vehicles is in operation at all sites. Three of the sites, however, are approved to accept trade waste for which there is a charging policy in place.

The operation of the HWRC facilities is subject to regular contract monitoring visits to ensure compliance with the contract specification and associated key performance indicators.

The contract specifies minimum diversion and recycling rates. These targets are monitored on an ongoing basis to ensure that the contractor is operating above minimum standards. However, to encourage optimum diversion and recycling performance the contract payment mechanism includes provision to incentivise the contractor accordingly.

Budget

The total annual budget for the HWRC Service is £11.2m

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 Key Issues

Access control arrangements.

The Commercial Vehicle Permit Scheme is in operation to control the access of commercial-type vehicles and large trailers (2m up to 3m. max.).

The audit review included observation of the gatekeeping arrangements at selected sites. For one site in particular (Sefton Meadows), it was identified that, during the observation period, there was potentially high usage above what would normally be expected by a number of commercial-type vehicles.

The on-site Automatic Number Plate Recognition (ANPR) system records the registration number of vehicles upon entry and exit. Examination of the ANPR data identified that the system had failed to record the entrance, exit or both for seven of the 15 vehicles observed entering the facility and also recorded the incorrect registration number for three of the vehicles.

Even taking into account the issues around the ANPR system failing to record all vehicle attendances, analysis of four months of data identified potential usage in excess of normal expectations for six of the above 15 vehicles with the three highest users visiting the site on at least 11, 15 and 18 occasions each in the four month period.

Whilst the above analysis does not provide firm evidence that the Permit Scheme has been contravened, sample testing provides strong indications that commercial-type vehicles are being permitted to use the facility beyond the normal expectations of the Permit Scheme. If this is the case, this could be as a result of a potential disregard for the operation of the Permit Scheme, but we cannot discount the possibility of site operatives deliberately allowing illegitimate use of the facility. Either way, if commercial waste is being allowed into the household waste stream, the impact is that the Authority is paying excess disposal costs as well as potentially losing out on the income that would normally be

gained from official trade waste disposal (albeit at a limited number of facilities). Additionally, should it be the case that illegitimate use of the facility is being allowed, there could be reputational risks involved.

Trade Waste

There are currently three HWRC's that are authorised to accept trade waste, namely Bidston, Huyton and Old Swan. The audit testing included analysis of inward and outward data in order to verify, within reason, that trade waste had been declared, charged and accounted for by Veolia.

From examining the supporting data submitted by Veolia, a comparison of the inward versus outward movements for an example commodity (rubble at Bidston HWRC) was undertaken. The analysis showed that for 2016/17 there were 230 vehicle loads of rubble recorded as being tipped at Bidston (187 medium and 43 small). Using Veolia's estimate for a medium size vehicle (two tonne average payload) and a one tonne average payload for a small size vehicle, this would equate to an inward expected total weight of approximately 417 tonnes. However, the outward weight for rubble for this period equated to 556 tonnes, a 25% discrepancy.

Whilst the analysis required an assumption to be made regarding the maximum load weight for small and medium sized vehicles, the assumed weight was generous in favour of Veolia's estimation. Even taking this into account, the resultant discrepancy was significant and presents the possibility that not all inward loads have been accounted for. Whilst the exercise could be viewed as subjective, for this waste stream at Bidston the income achieved at the gate equated to £8.4k whereas the disposal costs equated to £10.4k, equating to a 24% shortfall on break-even, which almost matches the above discrepancy on inward versus outward tonnages. We consider that this somewhat validates the basis of the assumptions made.

In order to provide a degree of assurance that all inward trade waste tips are accounted for, there needs to be a mechanism in place to balance, within reasonable tolerances, the inward versus outward throughput for the various waste streams, when practicable.

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

Household Waste Recycling Centres

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

1. To confirm that contract monitoring arrangements are robust and effective.
2. To confirm that the HWRC gatekeeping arrangements for the Commercial Vehicle Permit Scheme are effective and complied with by the Contractor.
3. To ensure that income in respect of trade waste is fully achieved and accounted for.
4. To confirm that HWRC recycling targets and performance are accurately calculated and reported.

Findings & Conclusions 3

Findings

3.1 Control Objective: To confirm that contract monitoring arrangements are robust and effective.

We established that four out of eight expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of four controls were identified, and recommendations have been made to enhance the control environment in these areas, as detailed below:

3.1.1 Contract monitoring procedures.

The Contract Compliance Officer is responsible for undertaking site visits across all facilities, including HWRC's. Documented procedures are in place specifying the requirements for monitoring on the following basis:-

- To ensure compliance with Veolia's self-monitoring procedure (Site KPI Daily Checksheet);
- To ensure compliance with the Output Specification and Service Delivery Plans; and
- To review Veolia's self-assessment of Material Collection Notes (MCN's) and corresponding weighbridge tickets.

Whilst the procedures are in place, they have not been subject to review since December 2013. In order to ensure that the procedures remain fit for purpose and provide appropriate focus on key and emerging issues, they should be subject to review on a regular basis.

Recommendation 1 *The contract monitoring procedures should be reviewed at the earliest convenience and subject to annual review on an ongoing basis.*

3.1.2 Corrective action following monitoring visits.

The audit confirmed that monitoring visits are undertaken as expected and that issues / faults are reported, as necessary, to Veolia both at an operational and a senior management level.

In terms of receiving confirmation from Veolia that appropriate action has been taken to rectify issues / faults, whilst in most cases the Compliance Officer was generally able to obtain assurances, there were occasions when this was not achieved, particularly on a timely basis. This had been recognised by management as an area for development which led to the trial use of a Cloud facility for Veolia to provide updates on corrective action, however, this did not prove to be effective. Consequently, the matter is still being considered and is being addressed in the monthly contract management meetings therefore no recommendation is necessary.

- 3.1.3 Veolia's electronic complaints register.** The contract requires Veolia to have an electronic complaints register in place with on-line access being available to MRWA.
- To enhance the contract monitoring arrangements, it would be beneficial if the Compliance Officer had access to Veolia's complaints register to enable a review of any associated complaints relating to a site in advance of monitoring visits.
- Recommendation 2** *Arrangements should be made for the Compliance Officer to have on-line access to Veolia's complaints register to provide awareness of associated complaints in advance of monitoring visits.*
- 3.1.4 Monthly data management checks.** On a monthly basis Veolia are required to select a minimum sample of 50 MCN's from varying waste streams throughout the year and provide the corresponding weighbridge tickets. This process is reviewed by the Compliance Officer in order for MRWA to gain appropriate assurance regarding the integrity of waste management data.
- It was established that the sample of 50 MCN's is currently selected by Veolia. In order to provide a more independent assurance check, it would be favourable if the sample of MCN's was selected by MRWA.
- Recommendation 3** *The sample of Material Collection Notes for the monthly checks should be selected by MRWA as opposed to Veolia.*
- 3.2 Control Objective: To confirm that the HWRC gatekeeping arrangements for the Commercial Vehicle Permit Scheme are effective and complied with by the Contractor.**
- We established that two out of three expected controls under review were in place and working effectively.
- However, weakness in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:
- 3.2.1 Access control arrangements.** The Commercial Vehicle Permit Scheme is in operation to control the access of commercial-type vehicles and large trailers (2m up to 3m. max.). The Scheme operates on the basis that an Annual Permit can be issued for unlimited visits to dispose of recyclable household items, however, for bulky household waste (such as furniture, rubble, scrap and wood) a Temporary Permit is required, limiting users to a maximum of 12 visits in a 12 month period.
- The audit review included observation of the gatekeeping arrangements at selected sites. For one site in particular (Sefton Meadows), it was identified that, during the observation period, there was potentially high

usage above what would normally be expected by a number of commercial-type vehicles. Over a two hour period, 15 different commercial-type vehicles accessed the site, two of which visited the site twice within the period. Due to most of the vehicles being panel vans their waste content was not visible, however, on three occasions trailers were utilised which clearly showed building / landscape waste. It was not always possible to see the interaction with site personnel at the gate although on some occasions the rear doors of the vans were opened and examined by a greeter at the gate.

We confirmed that all but one of the 15 commercial-type vehicles observed entering Sefton Meadows had been registered on the Permit Scheme database for both Annual Permits and Temporary Permits. The remaining vehicle had not been registered at all on the Permit Scheme database.

The on-site Automatic Number Plate Recognition (ANPR) system records the registration number of vehicles upon entry and exit. We requested six months of ANPR data for the above site, however, due to system failures causing breaks in the data, only four months was available for analysis. Furthermore, examination of the ANPR data identified that the system had:-

- failed to record the entrance, exit or both for seven of the 15 vehicles observed using Sefton Meadows; and
- recorded the incorrect registration number for three of the vehicles and in one case, three different registration numbers (all incorrect) for the same vehicle for the two visits made.

Even taking into account the issues around the ANPR system failing to record all vehicle attendances, analysis of the data identified potential usage in excess of normal expectations for six of the 15 vehicles with the three highest users visiting the site on at least 11, 15 and 18 occasions each in the four month period as per the ANPR data.

There is a procedure in place for HWRC operatives to report incidents of unauthorised access, for example, if a member of public forces their way into the facility if challenged. However, none of the above vehicles had been reported for unauthorised access.

Whilst the above analysis does not provide firm evidence that the Permit Scheme has been contravened, sample testing provides strong indications that commercial-type vehicles are being permitted to use the facility beyond the normal expectations of the Permit Scheme. If this is the case, this could be as a result of a potential disregard for the operation of the Permit Scheme, but we cannot discount the possibility of site operatives deliberately allowing illegitimate use of the facility. Either way, if commercial waste is being allowed into the household waste stream, the impact is that the Authority is paying excess disposal costs as well as potentially losing out on the income that would normally be gained from official trade waste disposal (albeit at a limited number of facilities). Additionally, should it be the case that illegitimate use of the facility is being allowed, there could be reputational risks involved.

Recommendations 4 i) The requirements surrounding the operation of the Commercial Vehicle Permit Scheme should be reinforced

with Veolia and assurance sought regarding monitoring processes.

ii) Upon attendance at the sites for monitoring visits, the Compliance Officer should check the permits of any commercial-type vehicles currently on the site.

iii) The ANPR systems at all relevant sites (i.e. those that receive more than 10,000 tonnes per annum) should be reviewed by Veolia to ensure that they are recording accurate data, with any failures to be addressed.

3.3 Control Objective: To ensure that income in respect of trade waste is fully achieved and accounted for.

We established that six out of seven expected controls under review were in place and working effectively.

However, weakness in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:

3.3.1 Trade Waste

There are currently three HWRC's that are authorised to accept trade waste, namely Bidston, Huyton and Old Swan. The audit testing included analysis of inward and outward data in order to verify, within reason, that trade waste had been declared, charged and accounted for by Veolia.

Veolia submit monthly statistical information per site which includes all inward trade waste deposits and outward movements for each waste stream. A comparison of the inward versus outward movements for an example commodity (rubble at Bidston HWRC) was undertaken. To enable this, due to the inward deposits being charged on the size of the vehicle (small, medium or large), an assumption was required regarding the average weight of a load. This was expected to be between one and two tonnes (the higher being Veolia's estimate for a medium size vehicle e.g. transit van). The analysis showed that for 2016/17 there were 230 vehicle loads of rubble recorded as being tipped at Bidston (187 medium and 43 small). If it was assumed that the maximum load weight for a small vehicle was one tonne and for a medium size vehicle two tonnes (in line with Veolia's estimate), this would equate to an inward expected total weight of 417 tonnes. However, the outward weight for rubble for this period equated to 556 tonnes, a 25% discrepancy.

Whilst the analysis required an assumption to be made regarding the maximum load weight for small and medium sized vehicles, the assumed weight was generous in favour of Veolia's estimation. Even taking this into account, the resultant discrepancy was significant and presents the possibility that not all inward loads have been accounted for. Whilst the exercise could be viewed as subjective, for this waste stream at Bidston, the income achieved at the gate equated to £8.4k whereas the disposal costs equated to £10.4k, equating to a 24% shortfall on break-even, which almost matches the above discrepancy on inward versus outward tonnages. We consider that this somewhat

validates the basis of the assumptions made.

In order to provide a degree of assurance that all inward trade waste tips are accounted for, there needs to be a mechanism in place to balance, within reasonable tolerances, the inward versus outward throughput for the various waste streams, when practicable.

Recommendation 5 *A mechanism for monitoring inward versus outward throughput of trade waste should be undertaken on a monthly basis to gain assurance that all trade waste has been duly processed and charged for.*

3.3.2 Trade Waste Profit Share

The income from Trade Waste is derived from a profit share arrangement with Veolia.

Veolia provide a monthly status report on the budget position for the year to date having taken into account gate income, disposal costs and revenue from the resale of recyclable material to third parties. The summary report is supported by various streams of information including gate income transactions, the outward tonnages for onward resale of recyclables and the recyclable income.

From reconciling the summary budget position report to the supporting data we found some anomalies. Whilst these related in the main to outward loads being registered against the wrong site, it demonstrated that there is a need to verify the accuracy of the monthly summary report to ensure that it accurately reflects the supporting data.

Recommendation 6 *The monthly status report on the budget position should be reconciled to the supporting data to ensure it is accurate.*

3.4 Control Objective: To confirm that HWRC recycling targets and performance are accurately calculated and reported.

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

No recommendations have been made.

Conclusions

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 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:

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.

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
Household Waste Recycling Centres

Action Plan 4

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
1	The contract monitoring procedures should be reviewed at the earliest convenience and subject to annual review on an ongoing basis.	Contracts Operations Officer	<p>Review HWRC contract monitoring procedures and establish a programme for ongoing review.</p> <p>Review compliance forms used for recording outcomes. This will encompass a review of the service contract to ensure key contractual areas/KPIs are monitored and material changes/variations are included. Non KPI key operational activities to be included in to foster and maintain good practice.</p> <p>To be implemented by 30th September 2018.</p>	
2	Arrangements should be made for the Compliance Officer to have on-line access to Veolia's complaints register to provide awareness of associated complaints in advance of monitoring visits.	Contracts Operations Officer	<p>Assuming IT systems will allow access, arrange for on-line access to Veolia's complaints register. Review MRWA and Veolia complaints process and procedures to ensure compliance with contract and maximise effectiveness of procedure and processes.</p> <p>To be implemented by 31st December 2017.</p>	

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
3	The sample of Material Collection Notes for the monthly checks should be selected by MRWA as opposed to Veolia.	Contracts Operations Officer	Selection of documents relating to '50 ticket check' to be determined by MRWA Contracts Team. To be implemented by 30 th September 2017.	
4	i) The requirements surrounding the operation of the Commercial Vehicle Permit Scheme should be reinforced with Veolia and assurance sought regarding monitoring processes.	Contracts Operations Officer	Set up meetings with the contractor to discuss the operation of the scheme and work with the contractor to investigate options to:- - monitor Veolia staff compliance with operation of the Permit Scheme; and - organise joint working sessions on site for MRWA staff to shadow site staff during HWRC opening hours. To be implemented by 31st December 2017.	
	ii) Upon attendance at the sites for monitoring visits, the Compliance Officer should check the permits of any commercial-type vehicles currently on the site.	Contracts Operations Officer	Enhance compliance monitoring proforma. Ensure item included to record permit checks undertaken as part of the compliance visit. To be implemented by 31 st October 2017.	

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
	iii) The ANPR systems at all relevant sites (i.e. those that receive more than 10,000 tonnes per annum) should be reviewed by Veolia to ensure that they are recording accurate data, with any failures to be addressed.	Contracts Operations Officer	Veolia to provide programme of review and copy of formal report with actions, owners and timescales. To be implemented by 31 st December 2017.	
5	A mechanism for monitoring inward versus outward throughput of trade waste should be undertaken on a monthly basis to gain assurance that all trade waste has been duly processed and charged for.	Contracts Operations Officer / Data & Performance Manager	Contracts Team to work with Data and Performance Team to put in place robust systems and processes to monitor trade waste throughputs and account for same. To be implemented by 31 st December 2017.	
6	The monthly status report on the budget position should be reconciled to the supporting data to ensure it is accurate.	Contracts Operations Officer / Data & Performance Manager	Contracts Team to work with Data and Performance Team to put in place robust systems and processes to reconcile summary budget position to supporting data. To be implemented by 31 st December 2017.	