

# 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	8

### Assignment Control

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### Distribution

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## 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 the calculation of monthly charges, year-end adjustments and contract monitoring.

##### **1.3 Background**

###### **Context**

The Waste Management and Recycling Contract (WMRC) enables Merseyside Recycling and Waste Authority (MRWA) to manage and recycle municipal waste which has been collected by the District Councils of Merseyside under their own refuse collection and street cleansing contracts.

The Contract enables MRWA to provide 14 Household Waste Recycling Centres in the Merseyside area, and a further two in Halton, specifically for residents to take their own waste for disposal or to be recycled. In addition to this, the Contract also covers the operation of four transfer stations, including the associated transport costs, and the operation of two Material Recovery Facilities.

The Contract was awarded to Veolia Environmental Services on 1<sup>st</sup> June 2009.

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.

##### **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**

No recommendations have been made following this review.

### **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. Year-end adjustments have been properly calculated and accounted for.
3. To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.

## **Merseyside Recycling and Waste Authority**

### **Veolia Contract**

The main findings from our review are highlighted below, and our detailed findings are included in Section 4.

#### **3.1 Areas of Good Practice**

- Monthly contract statements are rigorously checked and reviewed to ensure that payments being made are accurate and are in line with the Contract Payment Mechanism.
- The performance of the Contract is routinely and appropriately monitored.

#### **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 the suppliers are not accurate.	<p>A sample of three months payments was selected, and calculations were completed to ensure that payments made were accurate and in line with the Payment Mechanism.</p> <p>Testing confirmed that correct rates and indexation factors had been applied to all elements of the contract statement, and suitable records had been obtained and retained by MRWA to support the payments which had been made.</p> <p>It was also evident that rigorous checks are completed on the data which is obtained from Veolia, and any discrepancies are appropriately challenged and followed up before payment is made. Payments are always certified by an authorised signatory.</p> <p>In addition, it has been confirmed that all income due to MRWA from Veolia is appropriately calculated, and is deducted from the total amount of the monthly payment.</p>
<b>Control Objective 2: Year-end adjustments have been properly calculated and accounted for.</b>	
Adjustments at year-end are incorrect and do not comply with the contract. Inappropriate financial losses / gains could be made.	A review of the adjustments which were calculated as part of the submission for March 2018 confirmed these as being accurate, and suitable performance information was obtained from Veolia and held on file to support the payments which had been made.
<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 deductions are not enforced as per the contract conditions	Performance failure reports were checked for three months, and it was confirmed that appropriate performance deductions were awarded, that these were appropriately indexed, and that the financial deduction was accounted for in the monthly contract statement received from Veolia.

IMPLICATIONS / RISKS	FINDINGS
<p>Senior Managers and Authority members may not be aware of the performance of the contract and overspends may not be identified and acted upon.</p>	<p>Quarterly reports are provided by the Contracts Manager to the Executive Leadership Team on a quarterly basis. These reports contain appropriate information for the monitoring of the Contract performance.</p> <p>In addition, Veolia are invited to present to the Authority on an annual basis, where the performance of the Contract is scrutinised and discussed. The Executive Leadership Team will also provide regular updates to the Authority, and these are recorded in the minutes of the meeting.</p>
<p>The contract supplier is not achieving expected results, and this is unnoticed. This could result in financial and reputational loss to MRWA.</p>	<p>The monitoring mechanisms in place are sufficient to report how effective the contract is at delivering against expectations.</p>

### 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>	Matters that merit attention and would improve the overall control environment.