



St. Helens Council

# Internal Audit Report 2019/20

## Merseyside Recycling and Waste Authority Veolia Contract

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### Assignment Control

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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 2019/20 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 accuracy of the monthly payments made to Veolia, year end adjustments, and the accuracy of data received from Veolia in relation to tonnages.

##### 1.3 Background

###### Context

On the 1<sup>st</sup> June 2009, Veolia were awarded a 20-year Waste Management and Recycling Contract with a value of £640 million by the Merseyside Recycling and Waste Authority (MRWA) on behalf of the Merseyside and Halton Waste Partnership.

Veolia treat the waste and recycling from around 600,000 homes across Merseyside through their management of the following facilities:

- Materials Recovery Facilities and Waste Transfer Stations, which receive waste and recycling from homes across Merseyside and Halton through council-led kerbside collections; and
- The operation of 14 Household Waste Recycling Centres, which are available for all residents to deposit and recycle their household waste.

In addition to this, Veolia provides waste education to residents to encourage them to reduce the amount of waste they produce.

##### 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**

Actions to address the recommendations made in this report are included in section 4, which has been agreed with the relevant managers.

### **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.** All monthly contract payments to Veolia are accurate, legitimate, and accounted for appropriately.
- 2.** Year-end adjustments have been properly calculated and accounted for.
- 3.** Information generated from the Cognos System agrees to the information electronically forwarded from Veolia, and can be traced back to source data.

## Merseyside Recycling and Waste Authority

### Veolia Contract

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

#### 3.1 Areas of Good Practice

- All monthly contract payments to Veolia are checked for accuracy before the payment is made;
- Income has been appropriately identified and deducted from the monthly payment;
- Year end adjustments have been appropriately calculated; and
- Information provided to MRWA is accurate and can be reconciled back to source documentation.

#### 3.2 Key Areas for Development

- There are no areas for development.

#### 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.

This table details the number of recommendations made for each level of priority.

Low priority recommendations are provided at the exit meeting, and are not included in this report.

Priority	Number
High	0
Medium	1
Low	0

Veolia Contract

IMPLICATIONS/RISKS		FINDINGS		
<b>Control Objective 1: All monthly contract payments to Veolia are accurate, legitimate, and accounted for appropriately.</b>				
<p>Payments made to the suppliers are not accurate.</p>		<p>A sample of two months payments was selected, and calculations were completed to ensure that payments made were accurate and in line with the payment mechanism.</p> <p>It was evident that supporting evidence is submitted to back up each element of the payment made under the contract on a routine basis.</p> <p>Checks of this supporting documentation could be evidenced, and only one minor error was picked up as part of the audit testing, which was of little material value. It has been confirmed that this has now been rectified with Veolia.</p> <p>Documentation was provided which showed that errors are routinely picked up, and these are discussed and agreed with Veolia before the payment is made.</p> <p>Testing also confirmed that the correct rates have been applied for each element of the payment, and these have been correctly indexed for the relevant contract year.</p>		
REF.	FINDINGS	IMPLICATIONS / RISKS	RECOMMENDATION	MANAGEMENT RESPONSE
1	<p>In one instance, it was identified that the number of performance deductions allocated was not in line with the Performance Mechanism. Veolia had apportioned the number of failure points according to the number of minutes in the hour, instead of awarding a full 100 points for the failure. This is not consistent with how deductions have been applied previously. This error was not identified by the Contract Team.</p>	<p>The Contractor is not charged the full deduction in line with the Performance Mechanism.</p>	<p>Performance Deductions should be checked to ensure that the number of points allocated is in line with the Performance Mechanism.</p> <p><b>Priority: Medium</b></p>	<p><b>Agreed Action:</b> Contracts Team to check that the deductions are applied consistently. In addition, a tracker will be produced to monitor performance deductions.</p> <p><b>Responsible Officer:</b> Contracts Manager</p> <p><b>Timescale:</b> 30<sup>th</sup> September 2019</p> <p><b>Agreed Action:</b> The interpretation and application of the Performance Mechanism will be reviewed.</p>

IMPLICATIONS/RISKS		FINDINGS	
			<b>Responsible Officer:</b> Contracts Manager <b>Timescale:</b> 31 <sup>st</sup> August 2020
<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 have been calculated as part of the March 2019 submission was completed, and it has been confirmed that calculations are accurate and appropriate. Suitable supporting documentation has been retained to support these calculations.		
<b>Control Objective 3: Information generated from the Cognos System agreed to the information electronically forwarded from Veolia, and can be traced back to source data.</b>			
Information obtained from Cognos is not accurate.	Specific reports can be produced from Cognos which contain all of the required information in order to complete the monthly reconciliation. Testing confirmed that this information is accurate, complete and can be obtained on a timely basis.		
Raw data obtained from Veolia is not accurate to the individual weighbridge tickets.	<p>On a monthly basis, a random sample of 50 weighbridge tickets is selected and checked by MRWA Officers to ensure that the information is accurate.</p> <p>A further test was completed during this audit review to ensure the accuracy of the information provided by Veolia. A month was selected at random and weighbridge tickets were checked to the source documentation provided to ensure that all had been included and the information had been transferred correctly. 38% of the weighbridge tickets for Bidston for this month were reviewed, and no issues were identified.</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>	Issues that merit attention and would improve the overall control environment.