



St. Helens Council

Internal Audit Report 2019/20

Merseyside Recycling & Waste Authority Resource Recovery Contract

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Assignment Control

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St. Helens Council

Merseyside Recycling and Waste Authority (MRWA)

Resource Recovery Contract

1.1 Introduction

An audit review of the Resource Recovery 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 arrangements in place to ensure that payments are in accordance with the contract.

The annual reconciliation payment process for 2017/18 and 2018/19 was included in this review.

1.3 Background

Context

MRWA have a contract with Merseyside Energy Recovery Ltd (MERL) for the operation of the Resource Recovery Contract which is sub-contracted to Suez.

The operation of the contract consists of municipal residual waste being delivered to the Rail Transfer Loading Station (RTLS) at Kirkby for transfer to the Energy from Waste (EfW) plant at Wilton on Teeside; with the exception of occasional contingency disposal arrangements coming into force for planned or emergency shutdown of the EfW plant.

Budget

The total budget for the Service (2019/20) is £42.5m.

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 Agreed Action

No recommendations have been made following this review.

Merseyside Recycling and Waste Authority

Resource Recovery 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 appropriately.
2. To ensure that year-end adjustments have been properly calculated and accounted for.

Merseyside Recycling and Waste Authority

Resource Recovery 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

- The monthly payment processing routine and the annual reconciliation payment adjustments provide for thorough scrutiny and verification of supporting data submitted by the Contractor, Suez, to ensure that contract payments are accurate and in accordance with the Payment Mechanism.

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.

IMPLICATIONS/RISKS	FINDINGS
<p>Control Objective 1: To confirm that contract payments are in accordance with the Payment Mechanism and are accurate, legitimate and accounted for appropriately.</p>	
<p>Inaccurate contract payments.</p>	<p>Monthly Service Delivery Reports are submitted by the Contractor which are subject to thorough scrutiny and validation processes. Monthly contract payments are largely based upon annual tonnage forecasts subject to quarterly adjustments to take into account variances against actual throughput. The basis of the contract payments was verified against the Payment Mechanism and found to be accurate. A quarterly adjustment was also scrutinised as part of the audit testing and found to be accurate and fully supported by base data.</p> <p>We further verified that payments have been appropriately certified and that a clear segregation of duties has been applied.</p>
<p>Control Objective 2: To ensure that year-end adjustments have been properly calculated and accounted for.</p>	
<p>Inaccurate year-end reconciliation process.</p>	<p>The Contract Payment Mechanism is highly complex, aspects of which having been subject to challenge and review by the Contractor and MRWA in terms of interpretation, validity and application. Whilst there are items that remain outstanding and are subject to ongoing review, the position has recently been reached whereby the annual reconciliation, which has been delayed for the first two years of the contract, has been agreed with the contractor and the associated credit payments processed.</p> <p>The Annual Reconciliation process comprises of eight main components, three of which were reviewed as part of the audit sample testing, these being:</p> <ul style="list-style-type: none"> • The Annual Tonnage Adjustment Payment; • The Annual Landfill Reconciliation Payment; and • The Annual NNDR Reconciliation Payment. <p>It was confirmed that the above components had been accurately calculated and processed.</p>

Assurance Levels

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.

Recommendation Priority

High	Issues that are fundamental to the system of internal control for the area subject to review.
Medium	Issues where improvements in control are required to reduce the risk of loss, error, irregularity or inefficiency.
Low	Issues that merit attention and would improve the overall control environment.