



ST HELENS
BOROUGH COUNCIL

Internal Audit Report 2019/20



COMPLIANCE WITH THE PUBLIC
SECTOR INTERNAL AUDIT STANDARDS
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Merseyside Recycling and Waste Authority Veolia Contract

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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 compliance with the payment mechanism for both expenditure and income, and contract monitoring arrangements.

1.3 Background

Context

Merseyside Recycling and Waste Authority (MRWA) is a member of the Merseyside and Halton Waste Partnership (MHWP), which covers six of the Local Authorities in the North West. All members of the MHWP have the responsibility of tackling the effective delivery of sustainable municipal waste management in Merseyside.

On the 1st 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 are responsible for the operations of 14 Household Waste Recycling Centres (HWRCs), two Materials Recycling Facilities (MRFs) and four Waste Transfer Stations through the Waste Management and Recycling Contract. Along with providing these facilities, Veolia are also committed to providing waste education and helping residents to reduce the amount of waste they produce.

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.

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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. To confirm that contract payments are in accordance with the Payment Mechanism, and are accurate, legitimate and accounted for.
3. To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.

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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

- Robust validation checks are carried out to ensure accuracy of the monthly payment claims;
- Income due is accurately calculated, identified promptly and is deducted from the monthly payment appropriately;
- Charges to Halton Borough Council are accurately calculated and recovered in a timely manner; and
- The contract is monitored regularly to ensure it is performing to expected standards.

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.

The control framework for this review is robust, and so no recommendations have been made.

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IMPLICATIONS/RISKS	FINDINGS
Control Objective 1: To confirm that contract payments are in accordance with the Payment Mechanism, and are accurate, legitimate and accounted for.	
Payments made to contractors are not accurate.	Payments to Veolia in November 2019, December 2019, and January 2020 were selected and checked to ensure that amounts had been accurately calculated in line with the Contract Payment Mechanism. This involved recalculating all elements of the monthly charge, ensuring that appropriate rates had been applied, and that these had been correctly indexed. Testing confirmed that all three months had been appropriately calculated.
Control Objective 2: To confirm that contract payments are in accordance with the Payment Mechanism, and are accurate, legitimate and accounted for.	
Merseyside Recycling and Waste Authority (MRWA) does not receive all income due in line with contract requirements.	Testing confirmed that income has been appropriately calculated and deducted from the monthly contract payment as expected. In addition, recharges to Halton Borough Council were found to have been correctly calculated, and invoices raised promptly.
Control Objective 3: To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.	
Performance failures are not recorded, and monetary penalties are not enforced as per the contract conditions	For two of the three months tested, performance deductions had been applied. For each, it was verified that appropriate failure points had been assigned, each had been appropriately indexed, and the value of the calculated deduction had been deducted from the payment to Veolia. It was evident that performance deductions are checked on a monthly basis, to ensure that deductions are applied appropriately.
Senior Managers and Authority members may not be aware of the performance of the contract and overspends may not be identified and acted upon.	By way of review of reports provided by Management and a review on agendas and minutes of the MRWA, it was verified that the Senior Management and Authority Members are provided with suitable budget and performance reports, in order to ensure that they are fully aware of the position of the Contract.

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.