



Internal Audit Report 2020/21



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Merseyside Recycling and Waste Authority Resource Recovery Contract

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Distribution

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Executive Summary 1

Merseyside Recycling and Waste Authority

1.1 Introduction

An audit review of the Resource Recovery Contract was undertaken as part of the 2020/21 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 made are in accordance with the contract and that contract monitoring and reporting mechanisms are robust.

The annual reconciliation payment process for 2019/20 was also 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.

During 2020/21 the COVID pandemic has impacted upon the level of waste that has been processed via the RTLS and the EfW plant. It has been a highly unusual year, tonnages have been much higher than expected which has impacted on the contract both operationally and in terms of the working of the contract Payment Mechanism. All tonnes and costs will ultimately be reconciled after the end of the Contract Year.

Budget

£47.8m (revised estimate).

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.

Control Objectives 2

Merseyside Recycling and Waste Authority

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 appropriate and effective contract monitoring arrangements have been established and enforced.
3. To confirm that appropriate and effective budget and performance reporting arrangements are in place.

Findings Summary 3

Merseyside Recycling and Waste Authority

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

There is a robust process in place to ensure that the Monthly Service Report and supporting data submitted by the Contractor is subject to appropriate scrutiny and challenge in advance of agreeing the final version. This process assists in ensuring the accuracy of contract payments and enables effective contract monitoring.

3.2 Key Areas of Development

None

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>The contract requires the Contractor to submit a Monthly Service Delivery Report which incorporates a billing file. It was confirmed from sample testing that there are robust processes in place to validate the Monthly Service Delivery Report and supporting data submitted by the Contractor, in support of their monthly claim for payment. We are satisfied that appropriate steps have been taken to review and challenge the data and seek explanation / adjustment as necessary.</p> <p>The monthly contract payments are largely based upon forecast tonnages for the year. It was confirmed by re-performing the formulae in the Payment Mechanism that these components of the monthly payments were accurate. In addition, there is a variable component of the monthly payment, namely the National Non-domestic Rates Payment, that is based upon actual tonnage processed. We confirmed from sample testing that this had been accurately calculated and paid.</p> <p>There would normally be in-year financial adjustments (payments or credits) to reflect the actual tonnage processed in the Contract versus the forecast tonnages. However, due to excessive tonnages resulting from the COVID pandemic, these adjustments will be accounted for in the Annual Reconciliation process following year-end. It is anticipated that the accuracy of the adjustments will be subject to examination in the next RRC audit review.</p> <p>It was confirmed that payments had been duly certified and that there was an appropriate segregation of duties within the payment process.</p> <p>The review incorporated the Annual Reconciliation Payment Adjustment for 2019/20. It was confirmed by re-performing the formulae in the Payment Mechanism that the component parts of the Annual Reconciliation had been accurately calculated and paid.</p>

Control Objective 2: To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.	
<p>A failure in contract monitoring could result in poor contractor performance or non-compliance with contract obligations going undetected.</p>	<p>It was confirmed that the Monthly Service Delivery Report has been submitted by the contractor as required. The Report is subject to a drafting process. Documented procedures are in place that stipulate the responsibilities each of the Contracts, Data & Performance and Estates Teams have with regards to challenging and reviewing the various aspects of the Monthly Report. We were able to confirm that the drafting process is robust and supported by documentary evidence of challenge and review on all aspects with a view to agreeing a final version each month. The same process is applied to quarterly and annual reports.</p> <p>It was also confirmed that bi-monthly meetings are held with the contractor that provide the arena for discussions of the Monthly Report in addition to discussing the wider operational aspects of the contract provision. A review of the meeting minutes confirmed that operational and contractual matters are appropriately discussed, actions assigned and outcomes monitored.</p> <p>There are procedures in place to underpin the compliance visits at both the RTLS and the Wilton EfW plant. The local and national lockdowns as a result of the Pandemic have impacted upon the compliance visits to the extent that at the time of the audit only four out of the nine monthly RTLS visits had been possible whilst no quarterly visits were possible at the Wilton plant. For those RTLS visits that were possible, they had been undertaken in accordance with procedure, on-site observations were recorded and actions pursued as appropriate. In the absence of site visits at the Wilton plant, there remained the ability to monitor operations via the monthly reporting process and bi-monthly contract meetings as mentioned above.</p>
Control Objective 3: To confirm that appropriate and effective budget and performance reporting arrangements are in place.	
<p>Senior officers and Authority Board members are not aware of the performance of the RRC.</p>	<p>It was confirmed that there are appropriate reporting arrangements in place to facilitate senior management oversight of the contract both from a budget and performance perspective.</p> <p>One of the most significant impacts on the RRC in 2020/21 has been the increased tonnages due to the Pandemic. We were able to observe that the impact of this was captured in the Budget Report 2021/22, reported to the Authority in February 2021.</p> <p>We are advised of the intention for the contractor to provide an annual presentation to members of the Authority on the performance of the contract. Whilst this was intended in 2020, the Pandemic prevented it taking place.</p>

Definitions 5

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.