



# Internal Audit Report 2020/21



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## Merseyside Recycling and Waste Authority Waste Management and Recycling Contract

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### Distribution

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## Merseyside Recycling and Waste Authority

### Waste Management and Recycling Contract

#### 1.1 Introduction

An audit review of the Waste Management and Recycling 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 compliance with the payment mechanism for both income and expenditure, and contract monitoring arrangements.

#### 1.3 Background

##### Context

Merseyside Recycling and Waste Authority (MRWA) works in partnership with private sector suppliers to efficiently deliver waste management services to the residents of Merseyside.

The Waste Management and Recycling Contract enables 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 also enables MRWA to provide 14 Household Waste Recycling Centres in the Merseyside area for residents to take their own waste for disposal or to be recycled.

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

#### 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**

### **Waste Management and Recycling 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 appropriately accounted for.
2. Income is identified promptly, is accurately calculated, and is appropriately deducted from the monthly contract payment.
3. To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.

# Findings Summary 3

## **Merseyside Recycling and Waste Authority**

### **Waste Management and Recycling 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 Payment Mechanism is applied consistently and accurately, and robust processes are in place to ensure that rates and indexation is applied correctly.
- Income is properly calculated and is taken into account before payments are made.
- Contract Performance is monitored on an ongoing basis, and failures are reported and checked consistently.

#### **3.2 Key Areas of 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><b>Control Objective 1: To confirm that contract payments are in accordance with the Payment Mechanism, and are accurate, legitimate, and appropriately accounted for.</b></p>	
<p>Payments made to the suppliers are not accurate and can not be defended if challenged.</p>	<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>The formulas used in the calculation do not match the payment mechanism, or are calculated incorrectly, and this is not identified.</p>	<p>It has been confirmed that all formulas used in the calculation of the invoice are accurate to the payment mechanism, and all rates have been correctly applied.</p>
<p>Payments are not certified, which increases the risk of fraud.</p>	<p>All payments tested had been certified by an authorised officer. Since restrictions have been in place as a result of the COVID 19 pandemic, authorisation has been obtained electronically.</p>

IMPLICATIONS / RISKS	FINDINGS
<b>Control Objective 2: Income is identified promptly, is accurately calculated, and is appropriately deducted from the monthly contract payment.</b>	
<p>MRWA does not receive all income due in line with the contract specification.</p>	<p>Guaranteed third party income has been correctly calculated and applied to the invoice for all three of the months tested as part of this review.</p> <p>Income receivable from Halton Borough Council is calculated based on the percentage of waste processed by Veolia received from the District. However, during the period, which was reviewed, no invoice to Halton Borough Council had been raised. Discussions with Senior Officers determined that from April to August 2020, the contract payments were processed in the usual manner, but with an additional "COVID-19 Claims" element which would cover the loss of money due to COVID-19 as a result of site closures and social distancing restrictions. The Authority agreed to pay the amount claims on the provision that the amounts would be revisited.</p> <p>The Authority has since begun undertaking an exercise with an external advisor to determine which elements should and should not have been included in the claim and are examining any potential tonnage lost.</p> <p>It was decided that the Halton recharge should be placed on hold until all amendments have been agreed, to avoid a complicated reconciliation exercise at the end of the year. This will be examined in more detail during the next review.</p>
<b>Control Objective 3: To ensure that appropriate and effective contract monitoring arrangements have been established and enforced.</b>	
<p>Performance failures are not recorded, and monetary deductions are not enforced as per the contract conditions</p>	<p>In the three months tested, no performance failures were applied. However, it was clear that checks are completed by MRWA to ensure that failures have been reported when it would be appropriate to do so.</p>
<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>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>Regular budget reports are presented to the Authority, which includes details on the Waste Management Contract.</p>

IMPLICATIONS / RISKS	FINDINGS
<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> <p>Bi-monthly meetings are held with Veolia to discuss any issues, and to monitor the performance of the Contract.</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.