



Internal Audit Report 2021/22



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SECTOR INTERNAL AUDIT STANDARDS
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Merseyside Recycling and Waste Authority Waste Management and Recycling Contract

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Assignment Control

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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 2021/22 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 that year-end adjustments have been correctly calculated.

1.3 Background

Context

In 2009, Veolia were awarded a 20-year Waste Management and Recycling Contract (WMRC) 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 and Halton through the management and operation of the following facilities:

- Waste and Recycling is delivered to the Materials Recovery Facilities and Waste Transfer stations from homes across Merseyside and Halton through council led kerbside collections. Veolia also operate 14 household waste recycling centres across Merseyside which are available for all residents to deposit and recycle their household waste;
- Veolia also provide waste education and help residents minimise the amounts of waste they produce; and
- Educational visits and community engagement projects designed to minimise specific waste streams.

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

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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 appropriately accounted for.
2. Income is identified promptly, is accurately calculated, and is appropriately deducted from the monthly contract payment.
3. Year-end adjustments have been properly calculated and accounted for.

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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

- The Payment Mechanism is applied consistently and accurately, with rates and indexation applied correctly.
- Income is correctly calculated and is deducted on the monthly payment schedule.
- Year End adjustments have been correctly calculated and applied.

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>Control Objective 1: To confirm that contract payments are in accordance with the Payment Mechanism, and are accurate, legitimate, and appropriately accounted for.</p>	
<p>Payments to Veolia are not accurate and cannot be defended if challenged.</p>	<p>In order to test the accuracy of the contracts payments that have been made, a sample of three months from the last six were selected at random and calculations checked and verified. In all instances, adequate records have been obtained and retained in order to support the payments which have been made.</p> <p>In addition, re-calculating the formulas contained within the Payment Mechanism confirmed that the framework has been correctly applied, including the rates used and indexation applied.</p> <p>It is clear that payments are checked thoroughly on a monthly basis, and any discrepancies are discussed and resolved with Veolia before payment is made.</p>
<p>Payments are not certified, which increases the risk of fraud.</p>	<p>On a monthly basis, payment documentation is prepared and is authorised by a designated signatory. Since restrictions have been in place due to the COVID 19 pandemic, authorisation has been made electronically by email, however, this is still clear and records are retained to evidence approval.</p>

IMPLICATIONS / RISKS	FINDINGS
<p>Control Objective 2: Income is identified promptly, is accurately calculated, and is appropriately deducted from the monthly contract payment.</p>	
<p>MRWA does not receive all income due, in line with the contract specification.</p>	<p>The Veolia contract is made up of the following income:</p> <ul style="list-style-type: none"> • Monthly Guaranteed Third Party Income • Unavailability deductions • Performance deductions <p>Monthly Guaranteed Third Party Income is apportioned across the year and is calculated on the basis of the number of days in each month. This has been accurately calculated in all months tested.</p> <p>Performance and unavailability deductions have been identified and income due has been accounted for on the payment schedule correctly.</p> <p>In all instances, correct rates and indexation have been applied.</p>
<p>Control Objective 3: Year-end adjustments have been properly calculated and accounted for.</p>	
<p>Adjustments at year end are incorrect and do not comply with the Contract. Inappropriate financial losses / gains could be made.</p>	<p>A review of the year-end adjustments which were calculated as part of the March 2021 submission were found to be accurate, and suitable supporting information was obtained from Veolia to support the payment which has been made.</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.