



Internal Audit Report 2021/22



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Merseyside Recycling and Waste Authority Additional Covid-19 Expenditure

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Assignment Control

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Merseyside Recycling and Waste Authority

Additional Covid-19 Expenditure

1.1 Introduction

An audit review of Additional Covid-19 Expenditure 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 engagement with stakeholders, the calculations and distribution of additional costs as a result of COVID-19 and subsequent reconciliation.

1.3 Background

Context

The Merseyside Recycling and Waste Authority (MRWA) Levy proposal for 2021-22 was that an overall 6.5% increase was the minimum increase that the Authority could request. This was a result of growth in waste arising delivered by Councils to the Authority in 2020-21 which are expected to increase by 12% for residential household waste and 14% for recycled waste. Coupled with a new and unplanned demand for traffic management at Household Waste and Recycling Centres (HWRCs), the Authority had little option but to seek the 6.5% planned levy, particularly as waste arising are not expected to return to pre-COVID levels and traffic management arrangements may continue into the next financial year.

The Financial Officers of the Merseyside District Councils that constitute MRWA asked the Authority to identify such one-off COVID related costs, as there may be additional funding available from the Government on a one-off basis to contribute to the Authority's one-off costs. If those costs were off-set by one-off funding by the District Councils in a contribution to MRWA the headline level of the Authority's levy may be mitigated.

The Authority identified some costs that could be classified as one-off:

- Traffic management costs at HWRCs and incidental office costs; and
- Additional tonnage-based costs - 50% of which may be assessed as one-off.

Four options were presented to Council Finance Officers, and a contribution in respect of Traffic Management costs in 2020-21 and also in 2021-22, and a contribution in respect of one-off tonnage based costs arising in 2020-21 was agreed.

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

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To gain assurance that the following control objectives are being achieved within an appropriate framework of control:

1. Members of the Authority and local Districts have been consulted and kept up to date regarding the financial strategy of the Authority, because of COVID-19.
2. Additional costs resulting from the COVID-19 pandemic have been identified and charged to each District in an accurate and fair manner.
3. A reconciliation has been completed at the end of the financial year to determine whether cost estimations were accurate, and action has been taken when discrepancies have arisen.

Findings Summary 3

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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

- Additional costs due to COVID-19 were reasonably estimated and actual expenses are well documented.
- A year-end reconciliation has been completed to determine any over / under payments.
- District Authorities and MRWA Authority members were involved deciding how best to account for additional expenses.

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.

Additional Covid-19 Expenditure

IMPLICATIONS / RISKS	FINDINGS
<p>Control Objective 1: Members of the Authority and local Districts have been consulted and kept up to date regarding the financial strategy of the Authority, because of COVID-19.</p>	
<p>Authority Members were not aware of the additional costs associated with COVID-19, and the impact of this on the budget.</p>	<p>Review of Authority meeting minutes identified that budget reports were presented to the Authority members which clearly showed the additional costs associated with the COVID-19 pandemic, and how these were to be accounted for. In addition, outcomes of decisions have been recorded in the minutes.</p>
<p>Decisions made by MRWA led to unfair / inappropriate costs being charged to District Authorities.</p>	<p>Review of documentation confirmed that Finance Officers at each Authority were given a series of options relating to how additional costs should be charged, which included costs analysis and the impact on the levy calculation. The options were:</p> <ol style="list-style-type: none"> 1) A contribution in respect of traffic management costs in 2020/21 2) A contribution in respect of traffic management costs in 2020/21 and a contribution on the basis of 50% of the one-off tonnage based costs arising in 2020/21 3) A contribution in respect of traffic management costs in 2020/21 and also in 2021/22 4) A contribution in respect of traffic management costs in 2020/21 and also in 2021/22 and a contribution on the basis of 50% of the one-off tonnage based costs arising in 2020/21. <p>Evidence shows that all Finance Officers agreed to Option 4, and further testing confirmed that this was the option taken.</p>

IMPLICATIONS / RISKS	FINDINGS
<p>Control Objective 2: Additional costs resulting from the COVID-19 pandemic have been identified and charged to each District in an accurate and fair manner.</p>	
<p>Additional costs for Highways were not fairly recharged to Councils.</p>	<p>All District Councils presented MRWA with an estimate of additional costs which would be incurred as a result of the reopening of Household Waste Recycling Centres (HWRCs) with additional COVID measures. The additional costs related to the purchase, installation and maintenance of road traffic signs and additional staffing costs.</p> <p>Based on the estimates provided and supporting invoices of actual payments made at the start of the year, MRWA staff calculated a projected additional spend for the whole of 2020/21. This charge was then accurately re-distributed to each District Council on a population basis, as per the agreed payment option.</p> <p>It was evident, from review of supporting documentation, that reasonable assumptions have been made, and the items charged to MRWA for highways costs were fair and consistent across each District Council.</p>
<p>Costs for additional tonnage charges were not accurately calculated, leading to an unfair allocation of costs.</p>	<p>At the start of the pandemic, there was a recognition that the closure of HWRCs would create additional tonnages of waste collected by each District Council, however, it was impossible to determine the total tonnages which were a result of the COVID pandemic.</p> <p>Budget forecasting identified an overspend across both the Waste Management Contract (Veolia) and the Resource Recovery Contract (Suez). This overspend was projected for the 2020/21 financial year, and a 50% split was agreed by all parties. The 50% allocated to District Council was proportionally recharged accurately on a tonnage basis.</p>
<p>Control Objective 3: A reconciliation has been completed at the end of the financial year to determine whether cost estimations were accurate, and action has been taken when discrepancies have arisen.</p>	
<p>Estimated costs were not accurate and wither MRWA or District Authorities have overpaid.</p>	<p>Testing confirmed that actual costs were calculated at the end of the year, which have been checked and included in a year-end reconciliation. The actual figures have been compared with projected figures and recharged to District Councils have been identified.</p> <p>Payments have not yet been finalised, as final invoices have not yet been received from all Councils.</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.