



Internal Audit Report 2021/22



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SECTOR INTERNAL AUDIT STANDARDS
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Merseyside Recycling and Waste Authority Resource Recovery Contract

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Assignment Control

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Distribution

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Executive Summary 1

Merseyside Recycling and Waste Authority Resource Recovery Contract

1.1 Introduction

An audit review of the Resource Recovery 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 the arrangements in place to ensure that payments made are in accordance with the contract.

The annual reconciliation payment process for 2020/21 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.

Budget

£42.6m (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 Resource Recovery Contract

To gain assurance that the following control objective is 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.

Findings Summary 3

Merseyside Recycling and Waste Authority Resource Recovery 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

Robust processes are in place to provide the necessary scrutiny and validation of supporting data submitted by the contractor thereby ensuring that contract payments, including quarterly adjustments and annual reconciliation payments, are accurate and in accordance with the contract Payment Mechanism.

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 monthly payments that are largely based upon forecast tonnages for the year. Within the year, quarterly adjustment payments / credits are calculated and processed to account for variances between forecast and actual tonnages. In addition, an annual reconciliation is performed following the contract year-end which generates payments / credits across various components.</p> <p>It was confirmed by re-performing calculations in accordance with the formulae in the Payment Mechanism that the monthly forecast payments were accurate. This included confirmation of:</p> <ul style="list-style-type: none"> • The monthly tonnage payment; • The monthly landfill payment; • The Levy Exemption Certificates (LECS) payment; • The RPI calculations • The monthly National Non-domestic Rates Payment - a variable element of the monthly payment, based upon actual tonnage (confirmed to be accurate from sample testing the October payment). <p>The quarterly adjustment calculations for a sample quarter (Quarter 2) were confirmed to be accurate by re-performing the calculations in accordance with the Payment Mechanism formulae. This included verification of the actual tonnage processed by reference to base data provided by the Contractor which is subject to scrutiny by the Data & Performance Team.</p> <p>Similarly, the component parts of the Annual Reconciliation Payment for contract year 2020/21 were confirmed to have been accurately calculated in accordance with the Payment Mechanism formulae.</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>

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.