



Internal Audit Report

2022/23



COMPLIANCE WITH THE PUBLIC
SECTOR INTERNAL AUDIT STANDARDS
NWCAE GROUP FEBRUARY 2018

Merseyside Recycling and Waste Authority Capital Programme and Accounting

Contents

	Section	Page
Executive Summary	1	2
Objectives	2	3
Findings Summary	3	4
Detailed Findings and Recommendations	4	5
Definitions	5	6

Assignment Control

	Date
Draft Report Issued	10 th March 2023
Management Responses Received	23 rd March 2023
Senior Management Approval	30 th March 2023
Final Report Issued	30 th March 2023

Distribution

For Action:

Tony Byers
Peter Bedson
Peter Williams

Estates Manager
Business Support Manager
Director of Finance

For information:

Lesley Worswick

Chief Executive

Ref:
Status:
Date Published

MRWA12
FINAL
30TH MARCH 2023

Report Prepared by:
Alex Porter Senior Auditor
Carol McDonnell Audit Manager

Merseyside Recycling and Waste Authority

Capital Programme and Accounting

1.1 Introduction

An audit review of Capital Programme and Accounting was undertaken as part of the 2022/23 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 capital strategy and capital programme documentation, governance arrangements, proposed capital schemes, funding of capital schemes, approval process for capital schemes, capital expenditure and monitoring.

1.3 Background

The Capital Strategy outlines the principles and framework that shape Merseyside Recycling and Waste Authority's (MRWA) capital investment proposals.

The strategy sets out the framework within which MRWA's investment plans will be delivered and has been prepared to cover a four-year timeframe from 2022/23 to 2025/26.

The value of the capital programme for 2023-24 approved by members, at a meeting of the Authority on 3rd February 2023 is £640k.

In addition, in response to new Government legislation relating to the waste industry, it is estimated that a further £10m is likely to be required over the coming years, to facilitate the yet unknown changes to the existing site infrastructure.

1.4 Audit Opinion

Internal Audit contributes 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:

Substantial Assurance A sound system of governance, risk management control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

1.5 Agreed Action

Actions to address the recommendations made in this report are included in section 4, which has been agreed with the relevant Managers

Control Objectives 2

Merseyside Recycling and Waste Authority

Capital Programme and Accounting

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

1. There is a detailed approved capital strategy document in place that is regularly reviewed and sets out the Authority's objectives and process.
2. Processes are adequate, effective, and properly facilitate the review of a scheme in the Capital Programme.
3. All capital schemes are subject to appropriate approval.
4. Financial information systems support and contributes to the effective monitoring of each individual capital scheme.
5. Decision makers are sufficiently knowledgeable in relation to capital schemes.

Findings Summary 3

Merseyside Recycling and Waste Authority

Capital Programme and Accounting

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

- An appropriate capital strategy and a rolling three-year capital programme is in place and approved by members.
- Governance arrangements in place for reporting on the capital programme are robust.
- Funding is identified for capital schemes, and they are appropriately approved.
- Capital schemes are accounted for appropriately in the Financial Information System (FIS); and
- The capital programme is monitored effectively throughout the year by officers.

3.2 Key Areas of Development

There are no key areas for development.

3.3 Recommendation Summary

To assist management in using our reports, we categorise our recommendations according to their level of priority, please see section 5 for definitions.

This table details the number of recommendations made for each level of priority.

Low priority recommendations are provided at the exit meeting and are not included in this report.

Priority	Number
Critical	0
High	0
Medium	1
Low	0

REF	FINDINGS	IMPLICATIONS / RISKS	RECOMMENDATION	MANAGEMENT RESPONSE
Control Objective 2. Processes are adequate, effective, and properly facilitate the review of a scheme in the Capital Programme.				
1	<p>At present, scoring matrix to determine which capital schemes should be prioritised and phased reporting on progress of the capital programme to members throughout the year are not required.</p> <p>However, one significant scheme included in the 2023/24 and 2024/25 capital programme is the development of a significantly improved House Waste Recycling Contract (HWRC) site in St Helens, with a value of £2M in each year. This scheme has not yet been fully developed or agreed by members and will be the subject of further reports should it be progressed.</p> <p>If there are any further additional large schemes, then this is one example of when a scoring matrix to determine which capital schemes should be prioritised and phased reporting on progress of the capital programme to members throughout the year would be required.</p>	<p>If scoring matrices are not used, then capital schemes may not be prioritised, which may lead to criticism from members and the public, and lead to reputational damage.</p> <p>If members are not regularly updated on the progress of the capital programme throughout the financial year, then they may not be aware of issues that arise and consequently will be unable to take appropriate action.</p>	<p>In relation to capital schemes and the capital programme, it would be prudent for MRWA to put the following measures into place:</p> <ul style="list-style-type: none"> • A scoring matrix for prioritising which capital schemes are under consideration and ensuring that the criteria for meeting the definition of a capital scheme is met. • An approval process for the prioritisation of capital schemes, and • Reporting on the progress of the capital programme to members throughout the financial year. <p>Priority: Medium</p>	<p>Agreed Action:</p> <p>To be implemented in accordance with the requirements of the recommendation. The timescale set for implementation is to reflect when capital schemes are likely to increase in volume, and schemes will need to be prioritised.</p> <p>Responsible Officer:</p> <p>Director of Finance</p> <p>Timescale:</p> <p>30th September 2024</p>

Assurance Levels

- Substantial** A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- Reasonable** There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
- Limited** Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
- No** Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Recommendation Priority

- Critical** Failure to address the risk could potentially lead to catastrophic loss of MRWA services; loss of life; significant environmental damage or major financial loss; with national press coverage and substantial damage to the MRWA's reputation. Remedial action must be taken immediately.
- High** Failure to address the address the risk could potentially lead to failure to achieve organisational objectives, serious injuries, significant disruption to MRWA business or to users of its services, high financial loss, inefficient use of resources, failure to comply with law or regulations, damage to MRWA's reputation. Remedial action must be taken urgently.
- Medium** Failure to address the risk could potentially lead to an impact on operational objectives, moderate injuries, moderate financial loss, moderate breach of law or regulations, moderate reputational damage. Prompt specific action should be taken.
- Low** Matters that individually have no major impact on achieving the service's objectives. Specific remedial action is desirable.