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## **St. Helens Council**

### **Audit Report 2010 / 11**

#### **Merseyside Waste Disposal Authority**

#### **Review of the Waste Contract Arrangements at Merseyside Waste Disposal Authority.**

#### **Contents**

- Executive Summary
- 1. Objectives
- 2. Conclusions & Recommendations
- 3. Action Plan

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## St. Helens Council

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### EXECUTIVE SUMMARY

#### Merseyside Waste Disposal Authority

#### Review of Contract arrangements at Merseyside Waste Disposal Authority.

##### Scope

Merseyside Waste Disposal Authority (MWDA) has entered into a Service Level Agreement (SLA) for St Helens Council to provide its annual internal audit coverage commencing April 2010. This report summarises the results of the audit work undertaken with a view to providing an assurance that the financial controls in operation during 2009/10 were appropriate and effective in the following areas:

- i. Waste Management and Recycling Contract;
- ii. 3 x Landfill Contracts;
- iii. Payments under former Contract 1, which includes the costs for operating the Materials Recovery Facility (MRF), (to 31<sup>st</sup> May 2009); &
- iv. Payments under former Contract 2 (to 31<sup>st</sup> May 2009).

##### Background

The MWDA is responsible for the disposal of household and commercial waste collected by the five Merseyside Waste Collection Authorities together with the waste deposited at the 14 Household Waste Recycling Centres (HWRC) they provide. Until the 31<sup>st</sup> May 2009, this operation was carried out by Merseyside Waste Holdings Ltd (MWHL) through the operation of Contract 1 (including Bidston MRF) and Contract 2.

Since the 1st June 2009, Contract 1 (which included the MRF payment) has ended and a new contract, the Waste Management and Recycling Contract (WMRC), was awarded to Veolia Environmental Services. MWHL employees were transferred to Veolia under TUPE arrangements.

However, a landfill contract has remained with MWHL. Three landfill contracts are currently in place:

- I. 3C Arpley Contract (up to 370,000tpa) with WRG accessed via Mersey Waste Holdings Ltd;
- II. Landfill Services Contract (Top Up contract to 3C Arpley Contract) with WRG with MWDA;

III. Landfill Services Contract with Sita UK Ltd for disposal of Cement Bonded Asbestos (Hazardous Waste).

The approximate costs of operating the various contracts during the financial year 2009/10 are as follows:

Period Covered	Contract	Estimated Cost £
April 2009 to May 2009	Contract 1 (inc MRF)	6,639,078
	Contract 2	2,764,800
June 2009 to March 2010	WMRC	16,562,222
	Landfill 3"C" Contract (up to 370,000 tpa)	16,950,932
	Landfill Top Up Contract	7,920,430
	Hazardous Waste Contract	14,449
Estimated Annual cost of all the Waste Management Contracts for 2009/10		50,851,911

Under the new WMRC, Veolia Environmental Services principal responsibilities are for the management and disposal of the waste accepted at the MWDA's four transfer stations, the management and operation of all HWRC's including recycling, disposal and transporting of waste, and the operation of the Bidston MRF including arranging for the recovered materials to be sold and recycled at end markets.

Since October 2008, the Authority has had a top up landfill contract with Waste Recycling Group (WRG) in addition to MWHL's 3C Contract, which allows disposal to Arpley landfill site of up to 370,000 tonnes per annum (which is also operated by WRG). The first 200,000 tonnes of waste leaving Gilmoos and Huyton are disposed of at Arpley under MWHL's 3C Contract, but thereafter, the remaining waste leaving these two transfer stations is disposed of under the top up contract along with waste from the remaining transfer stations once the limit of 370,000 tonnes has been reached.

### Audit Opinion

In our opinion, appropriate key controls are in place and are operating effectively with regard to the management of the various waste contracts. Testing confirmed that there are appropriate controls in place to ensure that payments made are in accordance with the rates, terms and conditions of the relevant contract. Although we have recommended some control enhancements these do not represent significant weaknesses within the existing control framework or indicate that the interests of MWDA and other stakeholders are open to undue risk.

**Key Issue**

No key issues were identified during this review.

**Agreed Action**

The recommendations and actions have been agreed with the Assistant Director (Finance).

## INTERNAL AUDIT REPORT

### Merseyside Waste Disposal Authority

#### 1.0 Objectives

To review the controls in place with a view to providing assurance that payments made under the following contracts are accurate, legitimate and accounted for appropriately:-

1. New Waste Management & Recycling Contract.
2. Landfill contracts.
3. Contract 1 including Bidston MRF.
4. Contract 2.

#### 2.0 Conclusions & Recommendations

##### 2.1 Control Objective – New Waste Management/Recycling Contract (with Effect From 01/06/09)

- 2.1.1 In the majority of cases this control objective is being met.
- 2.1.2 Examination of claims for August, September and January 2010 confirmed that for each claim tested, the established 14 point check list had been completed by the Performance Report Officer who had signed and dated to confirm when each check had been completed. We also saw evidence that anomalies had been followed up and resolved with the contractor. We confirmed based on sample testing that the checks had been undertaken accurately.
- 2.1.3 Testing confirmed that the contract rates being applied are correct and that tonnages, deductions, etc are properly verified.
- 2.1.4 Sample testing of tickets to weighbridge reports at Gillmoss Transfer Station gatehouse identified a small number of manual transactions for which no reason was recorded. At the time of the review no one was able to fully explain why a manual entry would be required. Explanations varied from overdue tare weights to busy periods on the weighbridge.
- 2.1.5 Currently there is no reconciliation of tonnages recorded at landfill sites to the hazardous waste transported tonnages claimed by Veolia. The tonnage figures recorded by the landfill contracts were checked to the hazardous waste transport tonnage figures provided by the contractor within the contract claim. The sample highlighted that within the Hazardous Waste Contract for September 2009, there were 5 weekly deposits of hazardous waste, but the Veolia claim only recorded 4 being transported. Therefore, MWDA have not been charged for the transport of 2 tonnes of waste in the September or subsequent claims and this will need to be adjusted in the March 2010 claim.

- 2.1.6 We consider therefore, that it would be good practice to reconcile the monthly Hazardous waste landfill contract to the relevant Veolia contract. This will ensure all costs are identified and any discrepancies sorted out during the claim month.
- 2.1.7 The payment certificates within our sample had been subject to the application of the control grid stamp to confirm appropriate checks and certification prior to payment. Following on from the last review, the Contract Manager is now signing and confirming that he has checked and agreed the calculations/payments.

*Recommendations*

- 1. We consider an explanation be sought from Veolia as to why manual entries are recorded on the weighbridge and that the level of and reasons for manual entries be monitored.*
- 2. As part of the payment process the individual monthly Hazardous waste landfill records should be reconciled to the monthly Veolia claim and anomalies resolved prior to payment.*

## **2.2 Control Objective - Landfill Contracts**

2.2.1 This control objective is being met.

2.2.2 There are three contracts in place for the disposal of waste at landfill sites:-

- 3C Landfill Contract between Mersey Waste Holdings Limited and Waste Recycling Group – allowing up to 370,000 tonnes per annum (7 November to 6 November). Under this contract waste from Huyton and Gillmoss is limited to a total of 200,000 tonnes.
- Landfill Services (Top Up) between Merseyside Waste Disposal Authority and Waste Recycling Limited. (April to March)
- Landfill Services for Cement Bonded Asbestos between MWDA and Sita UK Ltd.

2.2.3 For the 3C Landfill Contract and Top Up contracts, electronic data is received from the transfer stations (Veolia) and the landfill site. The data is matched and analysed and a number of standard checks undertaken. We confirmed for a sample of payments that all checks had been undertaken accurately and recorded and queries arising had been notified to the contractor. In the majority of cases, suitable explanations had been received from the contractor, however for any discrepancies accepted by the contractor, we confirmed that correct deductions had been made prior to payment.

2.2.4 We also confirmed that the correct contract and landfill tax rates had been applied, calculations were correct and payments correctly posted to the Financial Information System. All payments had been appropriately certified by an authorised signatory.

2.2.5 Monitoring arrangements are in place to ensure that when Huyton and/or Gillmoss waste tonnages to landfill exceed 200,000 tonnes, or the total tonnage exceeds 370,000, further tonnages are included in the Top Up contract. The 370,000 limit was reached in October 2009, however, due to delays in determining tonnages from

various parties invoices raised by WRG were incorrect. The Assistant Contract Manager addressed this in February 2010 and is in the process of resolving the matter with Waste Recycling Group and MWHL regarding future payment adjustments.

- 2.2.6 For the Cement Bonded Asbestos contract, we confirmed on a sample basis that for loads claimed, consignment notes and weighbridge ticket details had been received from Veolia and these agreed to the tonnages included on the invoices received from Sita UK Ltd.
- 2.2.7 We confirmed that the correct contract and landfill tax rates had been applied, calculations were correct and payments correctly posted to the Financial Information System. All payments had been appropriately certified by an authorised signatory.

*Recommendation*

*3. Closer monitoring of the monthly invoices should be undertaken to ensure that when the 370,000 tonne landfill limit is reached, timely communication is made with the contractor.*

### **2.3 Control Objective – Contract 1**

- 2.3.1 This objective is being met.
- 2.3.2 To provide assurance that the final payment for Contract 1 was completed accurately, we examined the May 2009 claim and confirmed that the Performance Report Officer had completed, signed and dated the established 14 point checklist to verify the accuracy and legitimacy of the payment.
- 2.3.3 Sample testing of the established 14 point checklist confirmed that the Performance Report Officer is importing the MWHL data into a lotus database and running the appropriate programmes. We confirmed based on sample testing that the checks had been undertaken accurately. All anomalies identified had been recorded on an e-mail and forwarded to MWHL and a response had been received from MWHL and the payment certificate amended accordingly.
- 2.3.4 The payment certificate had been stamped and the appropriate officers had completed the grid stamp to confirm that the relevant checks had been completed.
- 2.3.5 The MRF recharge is included in the Contract 1 payment and therefore, as part of the contract 1 tests we checked May's claim to ensure that the appropriate checks had been undertaken prior to paying the claim and that these checks were accurate.
- 2.3.6 On a monthly basis MWHL provides MWDA's Contract Manager with tonnage figures of how much potential recyclable waste has been brought into Bidston MRF by each authority, together with what has been recycled / sent to landfill during the period. The Contract Manager then uses these figures to verify the accuracy of claim.
- 2.3.7 We confirmed that the Contract Manager undertakes a monthly reconciliation of tonnages from the MRF weighbridge to monthly contract adjustments where income

is received, or payment is due for disposal where items cannot be recycled.

#### 2.4 **Control Objective – Contract 2**

2.4.1 This objective is being met.

2.4.2 To ensure that Contract 2 had been closed correctly we examined the last month of trading, May 2009, and confirmed that the Performance Report Officer had completed the established 14 point check list, signed and dated it to confirm that it was accurate and legitimate. We confirmed from sample testing that the checks had been undertaken accurately.

2.4.3 From this payment month we confirmed that the data from MWHL had been imported accurately and that the various programmes had been run and all anomalies had been recorded in an e-mail that had been forwarded to MWHL. The review confirmed that MWHL had responded with the appropriate evidence and the payment claim had been amended accordingly.

2.4.4 We noted that the payment certificate had been stamped with the appropriate grid stamp and the relevant officers had signed to confirm the claim was correct and eligible for payment.

### 3.0 Action Plan

Rec No.	Recommendation	Responsible Officer	Agreed Action and Date of Implementation
1	We consider an explanation be sought from Veolia as to why manual entries are recorded on the weighbridge and that the level of and reasons for manual entries be monitored.	Performance Report Officer	Contact Veolia to determine all reasons for manual entries and monitor levels of manual entries and ensure reasons for manual entries are provided going forwards. Implementation date August 2010.
2	As part of the payment process the individual monthly Hazardous waste landfill records should be reconciled to the monthly Veolia claim and anomalies resolved prior to payment.	Assistant Contract Manager	Ensure Hazardous Waste Landfill Contract records are compared to WMRC records to support payments made in accordance with the Hazardous Waste Landfill Contract. Implementation date August 2010.
3	Closer monitoring of the monthly invoices should be undertaken to ensure that when the 370,000 tonne landfill limit is reached, timely communication is made with the contractor.	Assistant Contract Manager	Ensure landfill tonnages are apportioned to the various landfill contracts in accordance with monthly payment processes. Implementation date August 2010.