

Internal Audit Report 2023/24

West London
Waste Authority

Final
April 2024

Excess Revenue Share Calculation Audit

Classification	Trend	By type	Control design	Operating effectiveness	Total
Reasonable	N/a	Critical	0	0	0
		High	0	0	0
		Medium	0	1	1
		Low	0	0	0
		Advisory	0	0	0
Total findings: 1					



West London Waste

Treating waste as a valuable resource

Executive summary (1 of 1)

Summary of findings

This audit has been undertaken as part of the WLWA 2023/24 Internal Audit Plan. The WLWA have a contract with Suez that generates additional income based upon a number of factors. WLWA have a process to check the level of income due. The audit focused on the calculation documented in the contract and supporting information which to ensure that everything is correct and the information behind each figure used has been verified.

The final Excess Revenue Share which in 2022/2023 was calculated as £19,094,083. Two thirds of this amount was distributed to participating boroughs with the remaining third being reserved for green initiatives which the WLWA need to agree with the boroughs.

We found the calculations were in order. In reviewing the calculation, it was identified that the instructions for each figure in the reconciliation summary and source information was not always clear and clarification was needed. This presents a risk in the event of staff turnover. As such an advisory recommendation has been made that the process includes further documentation.

Background and scope (1 of 1)

Background

Most of the non-recycled waste produced in the London Boroughs of Brent, Ealing, Harrow, Hillingdon, Hounslow and Richmond upon Thames is taken to the Sevenside Energy Recovery Centre (SERC) and is utilised to generate electricity. The electricity generated is 34 megawatts which is the equivalent of powering 50,000 homes. WLWA currently send 300,000 tonnes to the centre and the remaining (100,000) tonnage is sent by third parties. The facility is part of the Authority's Residual Waste Services Public Private Partnership Contract with SUEZ UK Limited. SERC now has the ability to increase the capacity from 400,000 tonnes of waste per annum to 467,000 tonnes per annum. Negotiations are currently being worked on to produce the best profitable arrangement for all parties concerned.

The excess revenue share that is calculated comprises of two elements:

- 1) Third party waste (TPW) income i.e. the amounts charged to other customers whose waste is processed at the SERC and
- 2) Electricity income

The current mechanism allows WLERL to keep all the income up to certain thresholds for each type of income (c£11m for TPW and £12m for electricity) rising by indexation. The income, thresholds and sharing is calculated on a cumulative basis from the start of the contract. Beyond that threshold WLWA receive 60% of the additional income earned.

For a number of years low electricity prices meant that income was always below the threshold. However, since 2021, the rise in electricity prices has resulted in significant income sharing. In 2021/22 the income received not only filled the shortfall from thresholds in previous years, but it also provided more income meaning the Authority benefitted.

Scope

The audit work focused on the following areas –

Excess Revenue Share (ERS)

- The calculation used is exactly as documented in the contract.
- Verification of sourced data is undertaken. (Including - Billing file, Energy Revenue, PPP Income, YE Reconciliation, Monthly and Annual Reports, Third Party information and Manual Credit Notes and Invoices Reconciliation)
- Finished profit share calculations of percentage are agreed as accurate.
- Two thirds of profit share are paid to participating boroughs.
- One third of profit share is retained for agreed green projects.

Current year findings (1 of 1)

Transparency and Reconciliation Calculation Is Documented

Operational Effectiveness

1

Medium

Finding and root cause

The spreadsheets used to form the ERS calculation is extremely complex. There are links to follow most totals, but some instructions lead you to a single cell. This cell may need to be added or subtracted with another cell to get the totals to reconcile. This methodology was not always clear to the auditor.

Some figures needed more information or source documents to make sense, so the finance team were contacted a few times to clarify or obtain more information to assist with the audit work.

The third-party waste figures are provided by Suez but are not transparent in their meaning. The third-party waste rates widely vary which cannot be verified. Understanding the reason for varied rates would make the figures easy to verify and determine if any income should be shared with the WLWA.

Whilst no errors were found with the actual calculation, individuals unfamiliar with the complexity may struggle to understand the workings.

Documenting the process and reconciliation of numbers would assist anyone looking at the finished work and mitigate in the event of staff turnover.

Implications

- Financial loss to the WLWA.
- Unfair practices to customers who are charged high rates causing reputational damage and possible loss of business.
- Errors in the calculation due to complexity of the spreadsheets.

Action plan

- 1) Suez will be approached for variation of rate explanation and the WLWA will determine if the contract has been breached and money owed.
- 2) The calculation spreadsheet is documented fully so new staff can understand the work.

Responsible person/title

Xenab Khan – Finance Project Manager

Target date

31st December 2024

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.