



London Waste and Recycling Board

Final Internal Audit Report

Core Financial Systems

January 2017

This report has been prepared on the basis of the limitations set out on page 13.

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1. Executive Summary

1.1. Background

This audit formed part of the agreement between Mazars LLP and the London Waste & Recycling Board and in line with the approved 2016/17 Internal Audit Plan, we carried out an audit of the Core Financial Systems at the London Waste and Recycling Board (LWARB).

CIPFA defines Public Financial Management (PFM) as follows:

“Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.”

Robust core financial systems are essential to ensure that LWARB can operate effectively whilst maintaining a complete and accurate record of financial information. As part of our review of the Core Financial Systems in place at LWARB we covered the following areas:

- Main accounting;
- Non-pay expenditure and creditors;
- Income and receivables; and
- Payroll.

It was noted during the audit that the last meeting of the Board was held on 17th March 2016 and the last meeting of the Audit Committee was held on 12th July 2016. No further meetings have been held since these dates due to the change in administration (Mayor of London) and the expiry of member terms in office which will cause the committee memberships to change. New memberships of the Board and Audit Committee have yet to be finalised and therefore we were only able to confirm that management reports had been reviewed by both groups at their latest meetings.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance that the Board have implemented adequate and effective controls over the Core Financial Systems in line with the control objectives set out in section 2.

In summary, the scope covered the areas of legislation, policies and procedures; financial transactions and records; standing data amendments; system access; management reporting and reconciliations. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary Assessment

Our audit of the internal controls operating over the Core Financial Systems found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. Also, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Satisfactory	Satisfactory

Management should be aware that our internal audit work was performed according to the Public Sector Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for the Core Financial Systems is shown in Section 3.

1.4. Key Findings

We have raised four priority 2 recommendations, one priority 3 recommendation and one system improvement opportunity where we believe there is scope for improvement within the control environment. These are set out below:

- Manual adjustments to an employee's pay for a given period should be administered through an additional line on the payroll rather than through a direct adjustment to the employee's gross salary for that month. This additional line should be removed in the following period where the adjustment is no longer valid (Priority 2).
- Purchase card bank statements should be reviewed and signed on a monthly basis (Priority 2).
- Sales invoices should be accurately raised and should clearly evidence a due date for receipt of payment and payment details, including bank details. LWARB should run a monthly aged debtors report and should send formal reminders to chase any unpaid fees (Priority 2).
- Control account reconciliations should be completed on a quarterly basis and these should be subject to a secondary review (Priority 2).
- The Procurement Procedures should be amended to state that a purchase order should be raised for all relevant payments over £500 and should outline the exceptions to this policy. Staff should be reminded of the need to raise a purchase order for payments over £500 that are not contracted and a mechanism should be introduced to highlight non-compliance with this policy. Approval should be granted by the Head of Finance or Chief Operating Officer where non-compliance has been identified and it is not appropriate to retrospectively raise a purchase order. (Priority 3).
- LWARB should consider producing a library of templates in advance of their staging date (April 2017) for pension scheme auto enrolment (System Improvement Opportunity).

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

A summary of management's response is included in Section 4 below.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the system of control in respect of the Core Financial Systems, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were developed with reference to the Public Sector Internal Audit Standards, and by an assessment of risks and management controls operating within each area of the scope. The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within the systems, and controls in existence to allow the control objectives to be achieved; and
- Evaluation and testing of controls within the systems.

2.3. Areas Covered

In accordance with our agreed terms of reference, dated October 2016, our work was undertaken to cover the following system control objectives:

- **Legislation, Policies and Procedures**

All staff act consistently in compliance with legislative and management requirements and administration of the core financial functions is conducted in an economic, efficient and effective manner.

- **Financial transactions and records**

Reliability, integrity, confidentiality and security of the core financial systems and records is maintained through the reliable operation of the system and its interfaces to the main accounting and feeder systems.

- **Standing Data amendments**

Additions, deletions and amendments to standing data are completely, accurately and validly processed in a timely manner.

- **Systems Access**

Access to the core financial systems is secure, with systems access, including that to specific accounts, being appropriate and restricted to approved officers ensuring the integrity of data is maintained.

- **Management Reporting**













Information in respect core financial data is completely, accurately, validly and timely produced and secured to allow for effective monitoring of the current financial position and decision making in line with management and legislative requirements.

- **Reconciliations**

Control account reconciliations are undertaken within a timely manner of month end, with any balancing items investigated to ensure the integrity, reliability and accuracy of the core financial systems.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Legislation, Policies and Procedures			
Financial Transactions and Records			Recommendation 1 Recommendation 2 Recommendation 3 Recommendation 5 SIO 1
Standing Data Amendments			
System Access			
Management Reporting*			
Reconciliations			Recommendation 4

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

*Although no specific recommendations have been raised in this scope area, we were only able to confirm that management reports had been reviewed by the Board and Audit Committee in March 2016 and July 2016 respectively. Although the Head of Finance has produced monthly budget reports in the absence of regular group meetings, there is no evidence that these have been reported and discussed and therefore we are unable to provide full assurance in this area.

4. Observations and Recommendations

Recommendation 1: Payroll Adjustments (Priority 2)

<p>Recommendation</p> <p>Manual adjustments to an employee's pay for a given period should be administered through an additional line on the payroll rather than through a direct adjustment to the employee's gross salary for that month. This additional line should be removed in the following period where the adjustment is no longer valid.</p>
<p>Risk</p> <p>Where monthly adjustments to pay cannot be easily identified, there is a risk that these are not removed when required which could result in overpayments being processed to staff.</p>
<p>Observation</p> <p>To ensure that manual adjustments to employee's pay for a given period can be easily identified and removed in the following period where necessary, these should be administered through an additional line on the payroll for the given month rather than through a direct adjustment to the gross salary for that period. Manual adjustments include, but are not limited to:</p> <ul style="list-style-type: none"> • Performance related pay increases; • Backdated payments; and • Bonus payments. <p>Testing of a sample of 10 employee's pay for October 2016 identified one employee (employee reference 1) where their monthly pay was not in line with the agreed pay scales. The employee received a gross payment of £6,010.42 whereas under the agreed pay scales they should have received £5,730.92.</p> <p>The Head of Finance confirmed that this payment was incorrect and was due to a manual adjustment to pay being processed in June 2016. This manual adjustment was due to a backdated payment for a salary increase in line with the agreed pay scales from April 2016. This was processed as a direct adjustment to the gross salary and was not amended back to the correct figure in the proceeding months. This has resulted in an overpayment of a total of £1,397.50 over the five month period of July 2016 to November 2016.</p> <p>This was discussed with the Head of Finance and it was agreed that it would be easier to identify these manual adjustments requiring to be removed through processing these as a separate line in the payroll rather than directly adjusting the gross salary for the period.</p>
<p>Responsibility</p> <p>Head of Finance</p>
<p>Management Response / Deadline</p> <p>Agreed/immediate.</p>

Recommendation 2: Purchase Cards (Priority 2)

<p>Recommendation</p> <p>Purchase card bank statements should be reviewed and signed on a monthly basis. This recommendation was raised in the 2015/16 internal audit report.</p>
<p>Risk</p> <p>Where statements are not reviewed and signed on a monthly basis, there is risk that inappropriate expenses may be incurred, resulting in financial loss for LWARB.</p>
<p>Observation</p> <p>Purchase card bank statements are reviewed and signed off by two officers; the COO, Head of Finance or the Governance and Secretariat Officer, on a monthly basis to confirm that expenditure is appropriate.</p> <p>A sample of three months was tested to confirm that purchase card statements had been reviewed and signed off (April, August and September 2016). It was confirmed for both August and April 2016 that, where purchases had taken place on the cards, the statements had been retained, dual signed and reconciled against the receipts for the purchases. However, it was noted that the statements for September 2016 had not yet been reconciled against the receipts and therefore had not been formally signed off and retained on file.</p> <p>The Governance and Secretariat Officer confirmed that the September 2016 card statements had been reviewed on receipt, although the formal process for sign off had yet to be completed at the time of the audit.</p>
<p>Responsibility</p> <p>Head of Finance / Governance and Secretariat Officer</p>
<p>Management Response / Deadline</p> <p>Agreed/immediate.</p>

Recommendation 3: Income Recovery (Priority 2)

<p>Recommendation</p> <p>Sales invoices should be accurately raised and should clearly evidence a due date for receipt of payment and payment details, including bank details. LWARB should run a monthly aged debtors report and should send formal reminders to chase any unpaid fees.</p>
<p>Risk</p> <p>Where invoices do not include due dates and payment details and payments are not chased, there is a risk that payments may not be received from the debtor in a timely manner which could result in poor budget performance and a potential financial loss where fees are not recovered.</p>
<p>Observation</p> <p>To ensure that LWARB maximises the likelihood of receiving payments in a timely manner, sales invoices should include a due date for payment and information on how to pay, including bank details. To ensure that LWARB receives the payments due from debtors, formal reminders should be sent in a timely manner.</p> <p>Sales invoices were raised in order to recover the fees due from delegates for the delivery of the recycling management training course. A review of an example invoice found that it does not include a due date for payment or details on how the debtor should pay.</p> <p>A review of the customer accounts for those whose invoices were sent in July 2016 identified that fees remained outstanding. For example, the fee of £125 remained outstanding from July 2016 for both Royal Borough of Kensington & Chelsea and the London Borough of Waltham Forest. Discussion with the Governance and Secretariat Officer noted that an exercise is required to be completed to identify which delegate fees remain outstanding and to subsequently chase these fees from the boroughs.</p> <p>It was also noted that in one instance, for the London Borough of Harrow, invoices for the value of £125 and £150 had been raised on the SAGE system. Only an invoice for £125 should have been raised. A payment of £150 (£125 +VAT) had been received from Harrow and this was incorrect. Therefore, at the time of the audit, £125 remained outstanding on the account whereas the correct value should have been -£25, with LWARB owing Harrow £25 for the overpayment of VAT. This has subsequently been corrected by the Governance and Secretariat Officer and a refund will be processed.</p>
<p>Responsibility</p> <p>Head of Finance / Governance and Secretariat Officer</p>
<p>Management Response / Deadline</p> <p>Agreed. No credit control procedures in place historically as sales invoices very infrequently raised/do not form part of core activities, however the aged debtors function in Sage is straight forward to use, and a due date easy to add to the standard sales invoice template.</p>

Recommendation 4: Control Account Reconciliations (Priority 2)

<p>Recommendation</p> <p>Control account reconciliations should be completed on a quarterly basis and these should be subject to a secondary review.</p>
<p>Risk</p> <p>Where control account reconciliations are not completed, there is a risk that accounting errors may not be identified which may result in misstating of the accounts.</p>
<p>Observation</p> <p>To ensure that any discrepancies between the general ledger trial balances and the control account balances are identified in a timely manner, reconciliations should be completed on a quarterly basis.</p> <p>It was confirmed that the Head of Finance completes a reconciliation of grant agreements and project interest to the SAGE accounting system to identify any errors. However, there is currently no reconciliation between the general ledger trial balances (i.e. creditor's trial balance) and the controls accounts.</p>
<p>Responsibility</p> <p>Head of Finance</p>
<p>Management Response / Deadline</p> <p>Agreed/ongoing.</p>

Recommendation 5: Purchase Orders (Priority 3)

<p>Recommendation</p> <p>The Procurement Procedures should be amended to state that a purchase order should be raised for all relevant payments over £500 and should outline the exceptions to this policy. Staff should be reminded of the need to raise a purchase order for payments over £500 that are not contracted and a mechanism should be introduced to highlight non-compliance with this policy. Approval should be granted by the Head of Finance or Chief Operating Officer where non-compliance has been identified and it is not appropriate to retrospectively raise a purchase order.</p> <p>A recommendation regarding the raising of purchase orders was raised in the 2015/16 internal audit report.</p>
<p>Risk</p> <p>Where purchase orders are not raised for significant planned expenditure, there is a risk that there may be insufficient provision within the budget for this expenditure. Furthermore, there is a risk that inappropriate payments may be made to suppliers if authorisation routines are not adhered to.</p>
<p>Observation</p> <p>The organisation's Procurement Procedures require a purchase order to be raised 'for any expenditure above £500.' To ensure that staff are fully aware of when purchase orders are required, the Procurement Procedures should be amended. In order to address issues of non-compliance with policy, staff should be reminded of the requirement and a mechanism should be introduced to highlight instances of non-compliance.</p> <p>Testing of a sample of 15 purchases identified two instances where a purchase order had not been raised in line with the procurement procedures. These were the following:</p> <ol style="list-style-type: none"> 1. A purchase from Brook Lyndhurst for a value of £2,520 - This was an additional piece of work on top of the original purchase order value and although the additional cost was appropriately agreed, a purchase order had not been raised; and 2. A purchase from Westminster Energy Environment and Transport Forum for a value of £504 - It was confirmed with the Governance and Secretariat Officer that a purchase order was not raised for this.
<p>Responsibility</p> <p>Head of Finance / Governance and Secretariat Officer</p>
<p>Management Response / Deadline</p> <p>Agreed/immediate.</p>





System Improvement Opportunity 1: Template Documents for Pension Auto Enrolment

<p>Recommendation</p> <p>LWARB should consider producing a library of templates in advance of their staging date (April 2017) for pension scheme auto enrolment. The documents to be produced could include:</p> <ul style="list-style-type: none"> • Opt in form for current employees; • Auto enrolment/joining notice; and • Opt out form. <p>Confirmation of the employee's agreed pension contribution should be centrally retained and all completed forms should be retained in employee personnel files for record.</p>
<p>Risk</p> <p>Where templates are not produced in advance of the staging date, there is a risk that LWARB may not be fully prepared which could result in an inefficient transfer to the new policy. Where the required records are not retained by LWARB, there is a risk of noncompliance with legislation which could result in reputational damage to the organisation.</p>
<p>Observation</p> <p>To ensure that LWARB are prepared for their staging date for pension scheme auto enrolment, and to ensure that upon staging date they are compliant with legislation for keeping records, a library of pension scheme auto enrolment documentation should be considered.</p> <p>It was confirmed with the Head of Finance that LWARB's staging date for pension scheme auto enrolment is April 2017. The Head of Finance is aware that changes will be required although, at the time of the audit, no documents had been produced for auto enrolment.</p> <p>The current process is for employees to email the Head of Finance with their chosen contributions and, where the employee has chosen not to pay contributions into a pension scheme, no documentation is retained.</p>
<p>Responsibility</p> <p>Head of Finance / Governance and Secretariat Officer</p>
<p>Management Response / Deadline</p> <p>Agreed – by staging date (1st April 2017).</p>

Appendix A - Reporting Definitions

Assurance Gradings

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Significant		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Satisfactory		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Significant Assurance' does not imply that there are no risks to the stated objectives.

Recommendation Gradings

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B - Staff Interviewed

The following personnel were consulted:

James Lanman	-	Head of Finance
Adam Leibowitz	-	Governance and Secretariat Officer

We would like to thank the staff involved for their co-operation during the audit.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars LLP

London

January 2017

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