



# London Waste and Recycling Board

## Final Internal Audit Report

### Core Financial Systems

February 2018

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

**Distribution List:**

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**Key Dates:**

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## Status of our reports

This report (“Report”) was prepared by Mazars Public Sector Internal Audit Limited at the request of the London Waste & Recycling Board and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of the London Waste & Recycling Board and to the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility of this report for further information about responsibilities, limitations and confidentiality.

# 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 2017/18 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;
- Payroll; and
- Asset Management.

## 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 three priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- Given the changes to the Accounting System from Sage to Xero, the financial policies should be updated and reviewed by the Board and Audit Committee. The policies should reflect any changes and updates made to the systems. (Priority 2)
- Purchase card bank statements should be reviewed and signed on a monthly basis. (Priority 2)
- Where amendments are made to supplier details on the Xero system (including address or bank details), a note should be recorded within the accounting system (Priority 2).

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 has been 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 November 2017, 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 |    |    | <b>Recommendation 1</b> |
| Financial Transactions and Records   |    |    | <b>Recommendation 2</b> |
| Standing Data Amendments             |    |    | <b>Recommendation 3</b> |
| System Access                        |    |    |                         |
| Management Reporting                 |   |   |                         |
| Reconciliations                      |  |  |                         |

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

## 4. Observations and Recommendations

### Recommendation 1: Review of Policies and Procedures (Priority 2)

|   |
|---|
| <p><b>Recommendation</b></p> <p>Given the changes to the Accounting System from Sage to Xero, the financial policies and procedures should be updated and reviewed by the Board and Audit Committee. The policies should reflect any changes and updates made to the systems.</p>   |
| <p><b>Risk</b></p> <p>Where policies and procedures are not updated and reviewed on a periodic basis, in particular following a fundamental change in systems, there is a risk that staff will be unaware of their roles and responsibilities within the organisation. This may lead to poor service delivery.</p>  |
| <p><b>Observation</b></p> <p>Through discussion with the Head of Finance, it was established that since the last Core Financials Audit in 2016/17, the organisation have changed their Accounting System from Sage to Xero. This change has led to the changes in the following areas:</p> <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Accounts Receivable</li> <li>• Accounts Payable</li> <li>• General Ledger</li> <li>• Asset Management</li> </ul> <p>Through review of the relevant policies and procedures within the Finance Manual, there has not been a review since March 2015. Due to this, the Board and Audit Committee have not been provided with any oversight of changes made to the policies.</p> <p>Whilst it was identified that amendments have been made to reflect the system changes, these should be reviewed and approved by the Board and Audit Committee in line with the Scheme of Delegated Authority.</p> |
| <p><b>Responsibility</b></p> <p>Head of Finance</p>   |
| <p><b>Management Response / Deadline</b></p> <p>Agreed – to be reviewed at next Audit Committee meeting</p>   |

**Recommendation 2: Purchase Cards (Priority 2)**

|  |
|--|
| <p><b>Recommendation</b></p> <p>Purchase card bank statements should be reviewed and signed on a monthly basis.</p> <p>This recommendation was raised in the 2016/17 internal audit report.</p>  |
| <p><b>Risk</b></p> <p>Where statements are not reviewed and signed on a monthly basis, there is risk that inappropriate expenses may be incurred.</p>  |
| <p><b>Observation</b></p> <p>Discussion with the Head of Finance established that there are three purchase cards in operation. These are held by the Chief Operating Officer, the Head of Finance and Governance and Secretariat Officer.</p> <p>Purchase card bank statements are reviewed and signed off by two officers; the COO, Head of Finance or the Governance and Secretarial 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 (October, November and December 2017). It was confirmed for all three months that where purchases had taken place on the cards, the statements had not been signed off as evidence of review by the relevant individuals (Chief Operating Officer and Head of Finance) in like with the Scheme of Delegated Authority.</p> |
| <p><b>Responsibility</b></p> <p>Head of Finance / Governance and Secretariat Officer</p>   |
| <p><b>Management Response / Deadline</b></p> <p>All individual transactions on the cards had been reconciled on a monthly basis, however as a result of the systems changeover there was a delay in setting up appropriate reconciliation reports for sign off. This has now been done, so signed reports will be maintained on a monthly basis going forwards.</p>  |

**Recommendation 3: Supplier Amendments (Priority 2)**

|   |
|---|
| <p><b>Recommendation</b></p> <p>Where amendments are made to supplier details on the Xero system (including address or bank details), a note should be recorded within the accounting system.</p>   |
| <p><b>Risk</b></p> <p>Where a clear audit trail of any changes to supplier details is not provided, there is a risk that inappropriate changes will be made to suppliers. This may result in financial loss and reputational damage where suppliers are not paid in a timely manner.</p>  |
| <p><b>Observation</b></p> <p>Any changes made to supplier details should be recorded on the Xero system. This should be reconciled with the amendments log maintained by the Head of Finance.</p> <p>Through discussion with the Head of Finance and review of the system in place, it was confirmed that an amendments log is maintained for any changes made to supplier details. However, there is no audit trail provided on the Xero system of the changes to supplier details. Due to this, they cannot be checked independently to ensure details are correct.</p> |
| <p><b>Responsibility</b></p> <p>Head of Finance</p>   |
| <p><b>Management Response / Deadline</b></p> <p>Agreed/immediate/ongoing.</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  |
|---------------------|---|--|---|
| <b>Significant</b>  |  | There is a sound system of internal control designed to achieve the system objectives.   | The controls are being consistently applied.  |
| <b>Satisfactory</b> |  | 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. |
| <b>Limited</b>      |  | 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.   |
| <b>Nil</b>          |  | 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   |
|---------------------------------------|--|
| <b>Priority 1</b>                     | Recommendations which are fundamental to the system and upon which the organisation should take immediate action.                  |
| <b>Priority 2</b>                     | Recommendations which, although not fundamental to the system, provide scope for improvements to be made.                          |
| <b>Priority 3</b>                     | Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.       |
| <b>System Improvement Opportunity</b> | 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 to Bracknell Forest Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

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