



**West
Waste**

INTERNAL AUDIT

Final Assurance Report 2016/17

Creditors

13th October 2016

Overall IA Assurance Opinion:

REASONABLE

Recommendation Overview:

High Risk	1
Medium Risk	2
Low Risk	0
Notable Practice	0

Review Sponsor:

Jay Patel

Head of Finance and Performance

Report Distribution:

Xenab Khan

Finance Officer

Barry Lister

Senior Assistant Director

Emma Beal

Managing Director

Ownership of all final Internal Audit assurance reports rests with the relevant Review Sponsor.



HILLINGDON
LONDON

www.hillingdon.gov.uk

1. Introduction

- 1.1 This risk based IA assurance review forms part of the 2016/17 IA Plan. The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks in relation to Creditors.

2. Background

- 2.1 A creditor is a party (e.g. person, organisation, company or government) to whom money is owed. WLWA's creditor function is overseen by the Head of Finance and Performance. Creditor orders and payments are processed on the Authority's ledger system (Agresso) and its Access waste data management system.
- 2.2 The Authority's current Financial Regulations specifically outline the treatment of creditors. The regulations state that new creditor accounts can only be set up with the approval of the Head of Finance and Performance whose responsibility it is to ensure that appropriate checks have been carried out on the companies concerned. The Authority commits to paying all undisputed invoices within 30 days from the date of receipt. Payment terms of less than 28 days can only be agreed with the approval of the Treasurer. The Treasurer is responsible for approving procedures for writing off debts as part of the overall control framework of accountability and control.

3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for Creditors. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**. An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment of WLWA
Policies and procedures	SUBSTANTIAL - The Authority's Financial Regulations (FRs) capture the process for setting up new supplier accounts and detail the overarching process for invoice payments. Documented procedures have been established to underpin the FRs, providing guidance to staff on the two types of invoices received; Waste Trade and Disposal (WTD) invoices and Non-WTD invoices.
Roles and responsibilities, including segregation of duties	REASONABLE - The FRs clearly defines the roles and responsibilities, in particular the setting up of new supplier accounts. We also found adequate segregation of duties on the Agresso system, as well as the MS Access database, both of which are used by the finance team when processing invoices. However, our testing of access rights highlighted that a former employee still has Agresso admin rights.
Supplier account set up and amendments	SUBSTANTIAL - The Authority has stringent controls in place when setting up new supplier accounts, supported by a 'New Supplier' checklist which is signed off by the Head of Finance and Performance once completed. This is then sent to Ealing payments team who undertake credit and viability checks on behalf of the Authority.
Payments	LIMITED - We undertook testing on the two types of invoices that the Authority processes; WTD and Non-WTD. Our testing of a sample of invoices confirmed that each had been paid within 30 days, as set out in the Authority's FRs and in line with HMRC guidance. However, the due date for payment

	<p>recorded on the Agresso system did not correlate with our estimated due date based on the date received stamp. FR 79 states that "all undisputed invoices are to be paid within 30 days..." and thus it is important that information is accurate on the Agresso system to ensure compliance with this.</p> <p>Further control weaknesses identified through our testing were in relation to Non-WTD transactions. For example, in 7 of the 10 transactions sampled we established that no request prior to the payment for goods/services could be evidenced, whilst the receipt of goods confirmation process was also absent in these cases.</p>
Reconciliations	<p>SUBSTANTIAL - Reconciliations were verified as performed on a monthly basis by the Finance Officer between Accounts Payable Control Account Balance and the Supplier Balance. Following performance of the reconciliation, it is reviewed by the Head of Finance and Performance to confirm its accuracy to supporting documentation, with this process evidenced through sign off.</p>
Management information and reporting	<p>SUBSTANTIAL - We confirmed that Management receive sufficient information to aid their decision making requirements. We verified that expenditure is reported quarterly on a budget vs. actual basis, providing opportunity for variance analysis to be undertaken and scrutinised.</p>

3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

4. Detailed Findings and Conclusions

4.1 Policies and procedures

4.1.1 Financial management covers all financial accountabilities in relation to the running of the Authority. The Authority has Financial Regulations (FRs) in place, which were last approved by the Authority in December 2015. The FR is binding on all employees and provides detailed instructions to assist officers with delegated authority to carry out their financial duties in a proper manner. Further, they provide the framework within which the Authority manages its finances, including income and expenditure.

4.1.2 The FRs are communicated to all staff members via the Authority's intranet and we are pleased to report that stringent controls are detailed under sections 77 to 80 of the FR which, if fully adhered to, will help to mitigate key risks. For example, this details the requirement that new creditor accounts can only be set up with the approval of the Head of Finance and Performance whose responsibility it is to ensure that appropriate checks have been carried out on the companies concerned.

4.1.3 WLWA process two types of invoices depending on whether they relate to Waste Transport and Disposal (WTD) or not. The Authority's intranet communicates a purchase to pay in user guide for the Agresso system however this module of Agresso is not currently utilised by the Authority. However, a WLWA specific Accounts Payable procedure has been produced, dated July 2015, which we confirmed to underpin the FRs and provide comprehensive guidance to staff. Through our testing we established that the process for non WTD Invoices differs slightly to WTD but this was found to be appropriately documented within this procedure.

4.2 Roles and responsibilities, including segregation of duties

- 4.2.1 Roles and responsibilities are clearly defined within the Authority's FRs. This includes the requirement that new creditor accounts can only be set up with the approval of the Head of Finance and Performance. Further, only the Treasurer can agree payment terms of less than 28 days after an invoice is received.
- 4.2.2 To ensure there was sufficient segregation of duties within the creditor processes, we requested a report from Agresso detailing all employees with access to the Agresso system, their user profiles and associated permission rights. We analysed users holding the Requisitioner and Approver roles and confirmed that appropriate access was maintained with sufficient segregation of duties built into the creditors system.
- 4.2.3 Our testing did however highlight that the former Director of the Authority still had several user ids within the Agresso system potentially putting the system at risk due to the high level of access and authority of this individual. Subsequently, we have raised a recommendation aimed at addressing this risk (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).
- 4.2.4 For the WTD invoices that the Authority receives, a verification check is undertaken with information on the Access database. Tonnage data from the waste sites are input onto the Access database. If the invoice agrees with the tonnage data on Access then the officer will label the invoice with the supplier ID and the nominal code.
- 4.2.5 We requested a user access report displaying the admin rights to the Access database. The officers who perform the WTD invoice checks against information on the Access database do not have admin rights allowing them to enter tonnage data. Therefore sufficient controls are in place in regards to segregation of duties. This process was analysed as part of the 2015/16 waste tonnage data Internal Audit Assurance review, which provided Reasonable Assurance on the database and associated system of internal control.

4.3 Supplier account set up and amendments

- 4.3.1 Due to system limitations and the inability to obtain a report of new suppliers setup, we obtained a report from Agresso displaying all suppliers set up within the Agresso system. We sample tested five suppliers and are pleased to confirm that, in each case sampled, approval of the Head of Finance and Performance was evident in accordance with the FRs.
- 4.3.2 A supplier checklist, accompanied by the suppliers Bank Giro Credit, is required to be completed in order for a new supplier to be setup on Agresso. We are pleased to report that, in all five cases sampled, a supplier checklist was available, completed in full and accompanied by a Bank Giro Credit. Once completed, the supplier's details are sent to the London Borough of Ealing's Payments Team who undertake further suitability and viability checks prior to them being set up on the Agresso system.
- 4.3.3 From the five suppliers randomly selected, we are pleased to report that all five had been signed off by a member of the management team. It was noted that only 4 of the 5 suppliers were signed off by the Head of Finance and Performance (as required by the FRs). However, the one exception case related to a supplier setup prior to the new FRs whereby the previous Director signed off the supplier. This was deemed appropriate.

4.4 Payments

- 4.4.1 The Authority currently divides invoices into two batches, WTD and Non-WTD Invoices. WTD invoices relate to all contracted waste streams for which prices have already been agreed. Non WTD invoice relate to goods and services being bought as a one off.

-
- 4.4.2 We obtained a creditor transaction report for the prior 12 months, selecting a random sample of 17 WTD transactions for testing. Our testing of these 17 transactions confirmed:
- That an invoice was available to support each of the transactions sampled from the creditor transaction report;
 - The amount on the invoice agreed to the system in each case sampled;
 - The payments were made within 30 days of receipt of the invoice and thus in accordance with the FRs; and
 - Evidence was available to confirm that the invoice was checked for accuracy against the information retained on the Access database.
- 4.4.3 Upon receipt of the invoice, the document is marked with a date stamp by a member of the Authority's finance team. FR 79 commits the Authority to pay all undisputed invoices within 30 days of receipt. However, our sample testing highlighted that, in 14 of the 17 cases tested, the payment due date as detailed within the Agresso system did not reconcile to 30 days after the date stamp on the invoice. Although, we confirmed that each of the 17 invoices sampled had been paid within 30 days of receipt of the invoice, it is still imperative that this control is accurate to ensure compliance with the FRs. We have therefore raised a recommendation aimed at strengthening arrangements regarding the data accuracy on Agresso (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).
- 4.4.4 We also selected a sample of ten Non-WTD transactions from the creditor report and are pleased to report that, in all ten cases sampled, the Agresso transaction was supported by a valid invoice which reconciled to financial system data. Further, in each case sampled the invoice was found to have been paid within 30 days of receipt. However, as previously discussed with WTD invoices, we found that the due date detailed within the Agresso system did not correlate to 30 days after the date stamped on the invoice as received in each case sampled.
- 4.4.5 Through discussions with management it became evident that the Authority do not currently utilise the purchase to pay in self service module function of Agresso. This is understood to be due to the fact it does not integrate with the process for WTD invoices, which account for the majority of invoices processed by the Authority. As a result, functionalities of Agresso that help to mitigate key risks remain unused. This includes the ability for the requisitioner to confirm that the goods/services were received prior to any payment being made.
- 4.4.6 We requested evidence that the goods / services for each of the ten Non-WTD transactions sampled were confirmed as received prior to a payment being made. We were only able to locate evidence, via email, that goods / service had been received for one invoice sampled. However in two further cases sampled the invoice was accompanied by a job sheet which had been signed by officers. Therefore, no confirmation of goods /services received could be evidenced in the remaining seven cases sampled.
- 4.4.7 As the Authority does not use the purchase-to-pay-in-self-service function, no requisition or purchase order is raised, and thus pre-approval of the expenditure does not occur. This also inhibits the ability for the authority to undertake commitment accounting and facilitate enhanced budget monitoring.
- 4.4.8 In the absence of the purchase-to-pay-in-self-service function, the Authority has not implemented any compensating controls such as standardised process in place in which goods/services are confirmed as received prior to payment. The risk of payments being made for goods/services that have not been provided is therefore prevalent. Thus, we have raised a recommendation aimed at strengthening the Authority's control environment in relation to payment of Non-WTD invoices (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.5 Reconciliations

- 4.5.1 The Authority's Finance Officer undertakes a reconciliation between the Accounts Payable Control Balance and the Supplier Balance on a monthly basis. Upon completion of the reconciliation, the Head of Finance and Performance will review the reconciliation and sign it off confirming its accuracy. The performance of this reconciliation arose from a risk identified in the 2014/15 IA assurance review of the Main Accounting System, highlighting that in the absence of such reconciliations, errors or omissions to the accounts may go unnoticed.
- 4.5.2 We randomly selected two months of the current financial year (June and July) and requested evidence of the performance of this monthly reconciliation process. In each case sampled, we were able to confirm performance of the reconciliation and verify the figures to supporting documents. Further, in both cases sampled the Head of Finance and Performance had signed the reconciliation sheet, confirming that they had been reviewed as well as evidencing segregation of duties.

4.6 Management information and reporting

- 4.6.1 The Head of Finance and Performance receives a monthly report, titled the BVPI8 report in which the Authority's actual performance against the creditor payments Key Performance Indicator (KPI) is detailed. The KPI is for 90% of undisputed invoices to be paid within 30 days. We were provided with the previous months report as requested; the Authority had paid 98% of undisputed invoices within 30 days and therefore had exceeded the KPI.
- 4.6.2 We are pleased to report that Creditors are evidenced as reported to the quarterly Authority meetings; we took a sample of the last two Authority meetings (March and July 2016). Expenditure is also reported on a budget verses actual basis, helping to identify any variance however, it is our opinion, that this could be further enhanced through the use of the purchase order process. Further, we were also able to evidence that creditors are detailed within the end of year statement of accounts which currently is at draft stage, but will be presented to the Audit Committee and the Authority.

5. Acknowledgement

- 5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Finance team, whose advice and help were gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Matteo Biondi, CIA
Senior Internal Auditor

This audit was reviewed by: Elaine Polton, CPFA
Assistant Internal Audit Manager

Thank you,



Muir Laurie FCCA, CMIIA
Head of Business Assurance

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>In the absence of Agresso's purchase-to-pay-in-self-service functionality, the Authority should consider introducing a process in which Non-WTD goods / services are confirmed as received prior to payment.</p> <p>Management should consider the use of the purchase order function to obtain approval of expenditure before it is committed by the Authority (para ref 4.4.8).</p>	<p><i>Without a receipt of goods confirmation process or purchase order process, there is an increased likelihood that payments are made for goods / services that have not been received or are not in the interests of the Authority. This in turn could lead to a direct financial loss to the Authority.</i></p> <p><i>Where full functionality of the Agresso system isn't utilised there is a risk that the full benefits of the system are not obtained, with loss of resources due to inefficient processes.</i></p>	<p>HIGH</p> <p>●</p>	<p>TREAT</p>	<p>The procedure for the Non-WTD invoices will be improved to include receipt of goods confirmation. For context please note that Non-WTD invoices represent less than 25% of all invoices (and less than 10% by value).</p>	<p>Finance Officer (Xenab Khan)</p> <p>31st October 2016</p>

APPENDIX A (cont'd)

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
2	<p>Management should review the Agresso user access rights to ensure that access is restricted to appropriate individuals and previous employee's access is appropriately removed.</p> <p>Consideration should be taken to implement a periodic check on Agresso user access rights to ensure they remain appropriate (para. ref 4.2.3).</p>	<p><i>Where the system user access is not reviewed and kept up to date, there is the risk that inappropriate access is granted to systems potentially compromising the integrity of the ledger and increasing exposure to fraudulent activity and risk of incorrect reporting.</i></p>	<p>MEDIUM</p> <p>●</p>	TREAT	Access rights will be reviewed annually and amended appropriately.	<p>Head of Finance</p> <p style="text-align: center;">(Jay Patel)</p> <p style="text-align: center;">31st December 2016</p>

APPENDIX A (cont'd)

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
3	Management should investigate the calculation of due date within the Agresso system to ensure its continued accuracy to ensure that it reconciles to 30 days after the date specified in the date received time stamp (para ref 4.4.3).	<i>If information within the Agresso system is not accurate there is a risk that the Authority will be working to incorrect payment dates. This could lead to late creditor payments, which could result in reputational damage to the Authority.</i>	MEDIUM ●	TREAT	Reports have been identified that provide the correct dates and these will be used to check that payments are made in accordance with timescales.	Finance Officer (Xenab Khan) 31 st December 2016

**Please select appropriate Risk Response - for Risk Response definitions refer to [Appendix C](#).*

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Authority's objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Authority's objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Authority's objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the Authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the Authority and the reporting of financial management; and
 - the performance management of the Authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.

3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX B (cont'd)

RISK RESPONSE DEFINITIONS

Risk Response	Definition
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
HIGH 	The recommendation relates to a significant threat or opportunity that impacts the Authority's corporate objectives. The action required is to mitigate a substantial risk to the Authority. In particular it has an impact on the Authority's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM 	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Authority. In particular an adverse impact on the Department's reputation, adherence to Authority policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW 	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Authority as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE 	The activity reflects current best management practice or is an innovative response to the management of risk within the Authority. The practice should be shared with others.