

# INTERNAL AUDIT

## Final Assurance Report 2017/18

### Compliance with the Scheme of Delegation

21<sup>st</sup> December 2017

#### Overall IA Assurance Opinion:

**SUBSTANTIAL**

#### Recommendation Overview:

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

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## 1. Introduction

- 1.1 This risk based IA assurance review forms part of the 2017/18 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 Compliance with the Scheme of Delegations.

## 2. Background

- 2.1 The powers specified in the Scheme of Delegation (SD) are delegated to Officers of the Authority. The Scheme does not define how each decision should be taken, nor does it attempt to list incidental matters that are a part of the Officers' everyday management functions. The Chair (or Vice Chair acting in that capacity in their absence) should be consulted on any matters that are considered politically sensitive. The SD is a public document, which was updated and approved in July 2016 and is available on the Authority's website, as are those documents that are to be used in conjunction with the SD.
- 2.2 The SD details the procedure to follow if urgent and prompt decisions are required, in a matter normally decided by the Authority (including a decision beyond the approved budget), which can admit no delay. In addition to this, the Scheme also stipulates the delegated powers of the Managing Director, Clerk and Treasurer; clarification on delegation to officers can be sought from the Clerk or Managing Director.
- 2.3 The SD forms part of the Authority's Standing Orders and should be read in conjunction with other parts. The SD is referenced in further Authority governance documents, for example the Financial Regulations. The Financial Regulations prescribe the responsibility of the Treasurer in approving the financial schemes of delegation.
- 2.4 All Officers who make decisions on behalf of the Authority should complete a Register of Interests form. The form asks Officers to declare any interests (personal or business related) that they may have, which could affect their independence and impartiality when making decisions on behalf of the Authority. The Public Contracts Regulations 2015 states that appropriate measures should be taken to "*effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators.*"

## 3. Executive Summary

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

Scope Area	IA Assessment
Policies and procedures	<p><b>Substantial Assurance:</b> The Authority has several key policies and procedures in place which incorporate the arrangements for documenting and cascading delegated authority to Officers. These included the Authority's Contract and Procedure Rules and Financial Regulations, in addition to the documented scheme of delegated powers from the Authority to Officers. Both governing documents were found align with the SD to Officers, up to date, fit for purpose and effectively communicated to staff via the Intranet.</p> <p>An Officer Code of Conduct (CoC) is in place documenting the process for employees, as Officers of the Authority, to declare personal interests.</p>

Scope Area	IA Assessment
Officer's register of interest for all staff	<p><b>Reasonable Assurance:</b> We are pleased to report that appropriate mechanisms are in place to report potential interests. For Members, this is undertaken as part of Authority meetings, with no interests recorded on the register document detailing pecuniary interests.</p> <p>The Authority's Officer CoC requires employees, as Officers of the Authority, to declare personal interests with appropriate guidance deemed to be in place detailing required action of staff on an annual basis. However, it is our opinion that this process, whilst robust in design, is not embedded with no live register maintained to capture Officer declarations as they arise. A compensating control is in place whereby Senior Officers of the Authority submit an annual related party transaction declaration as part of the financial accounts.</p>
Scheme of Delegations, including a compliance testing of sample of authorisations	<p><b>Substantial Assurance:</b> Reviews of the SD take place annually; however, due to the nature and size of the business, it is not always necessary to make changes. The last update to the SD to Officers was made in July 2016, aligning with the update to the Financial Regulations and related to minor changes to post titles and the updated tenders and contract procurement rules.</p> <p>Appended to the Financial Regulations is the delegated financial authority template document, required to be completed to delegate financial authority from the Managing Director to an Officer. This was found to be effectively completed for each member of staff reporting into the Managing Director. However, upon review it was noted that this document does not incorporate delegated authority for HR or recruitment activity.</p> <p>Our sample testing of nine transactions confirmed, in each case sampled, that the approval was granted in line with the documented delegated financial authority. Furthermore, the recent review of staff expenses confirmed appropriate authorisation of expenditure.</p>
Evidence to support decisions	<p><b>Substantial Assurance:</b> Within all three systems reviewed (Finance, HR, Procurement) an effective management trail of evidence was found to be in place to support the decision. Further, a document retention policy is in place, detailed within Appendix 1 of the Financial Regulations, setting out the type of document and the length of time that the document must be retained. This includes the requirement to retain the annual scheme of financial delegation for employees for a period of three years.</p> <p>Finally, we are pleased to confirm that delegated decisions are reported to the Authority meeting through the Budget Monitoring report to members. Section 3 of the this report provides transparency over operational arrangements with the standard section summarising any significant financial decisions made by the Director and/or Chief Officers under the SD to Officers since those reported to the last Authority meeting. These are detailed within the Appendix and we consider this to be notable practice given the enhanced transparency provided to Members, enabling oversight and ability to hold management to account for decision making.</p>

Scope Area	IA Assessment
Agresso	<p><b>Substantial Assurance:</b> We undertook testing to ensure all decisions processed through the finance systems had been approved by permanent members of staff in accordance with delegated financial levels of authority.</p> <p>Access to the Agresso system was reviewed and it was confirmed that logical access controls were in place to restrict access the system. Examination of the Agresso system access rights highlighted that appropriate staff had access to the system, ensuring compliance with the SD. A series of transactions were reviewed to ensure that the correct approval had taken place in line with the schemes of delegation and delegated authority. All transactions were found to be in line with the SD.</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 We were able to evidence that the Authority has several key policies and procedures in place which incorporate the Authority's arrangements for documenting and cascading delegated authority to Officers. These included the Authority's Contract and Procedure Rules and Financial Regulations, in addition to the documented scheme of delegated powers from the Authority to Officers. Both documents were found to align with the SD to Officers, were up to date, fit for purpose and effectively communicated to staff.
- 4.1.2 The primary document is the SD to Officers, original approval by the Authority in June 2014, were last updated in July 2016 in coordination with the update to the Financial Regulations. Upon review we found the SD to Officers to include sufficient detail in relation to those duties, tasks, financial thresholds and powers delegated to the Managing Director, the Clerk and the Treasurer. Further, sufficient guidance is included within the Financial Regulations to supplement the SD to Officers, documenting processes to control the financial SD, identifying those staff authorised to act on the Managing Director's behalf together with the limits of their authority.

### 4.2 Officer's register of interest for all staff

- 4.2.1 Declaring interests, whether they are pecuniary or non-pecuniary is a demonstration of integrity. We confirmed that this process forms part of the annual statement of accounts process, where Members and Senior Management sign a declaration of related party transactions to be presented alongside the accounts. Testing of this process undertaken in March 2017 for the 2016/17 accounts confirmed that all the Member's and Senior Officers had submitted their forms. We verified, through analysis of the relevant minutes that declarations of interests were sought within Authority and Audit Committee meetings with no declarations made. The nil returns are recorded on a register for tracking purposes.
- 4.2.2 We verified that the Authority has an up to date CoC in place, dated October 2015, to support the maintenance of the highest standards of conduct by employees, identify corporate standards and help all employees to act in a way which upholds the Authority's standards and, at the same time, protect them from criticism, misunderstanding or complaint. The CoC forms part of each Officer's contract of employment.

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4.2.3 Our review of the CoC confirmed it requires employees, as Officers of the Authority, to declare personal interests with appropriate supporting guidance in place within the CoC for staff to complete this on an annual basis. However, it is our opinion that this process, whilst robust in design, is not embedded with limited records to confirm the annual declaration return is adhered to. Further, no summary register is maintained capturing all Officer declarations throughout the authority, including documenting conflicts as they arise throughout the year. Subsequently, we have raised a recommendation to strengthen the control framework with this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

### 4.3 Scheme of Delegation, including a compliance testing of sample authorisations

4.3.1 Review of the SD take place annually; however, due to the nature and size of the business, it is not always necessary to make changes. The last update to the SD to Officers was made in July 2016, aligning with the update to the Financial Regulations and related to minor changes to post titles and the updated tenders and contract procurement rules.

4.3.2 It was confirmed that these changes were made by the Clerk, Chief Officers and Senior Managers and approved by the Clerk who, in line with the SD, has delegated authority to approve minor changes. This was found to be appropriately documented. Furthermore, a central point of contact for all governance activity is in place, with the Head of Finance and Performance performing the role.

4.3.3 As previously mentioned, appended to the Financial Regulations is the document required to be completed to delegate financial authority from the Managing Director to an Officer. This document captures authority and financial thresholds for financial, procurement invoice and expenses and requires sign off by the Managing Director. This was found to be effectively completed for each member of staff reporting into the Managing Director. However, upon review it was noted that this document does not incorporate delegated authority for HR or recruitment activity and a low priority recommendation has been raised to address this (refer to **Recommendation 2** in **Appendix B**).

4.3.4 The approval levels within the Procurement system were reviewed to ensure accordance with the SD and delegated financial authority. We also sought to confirm that no members of temporary staff were provided with access to approve contractual or procurement decisions. We are pleased to report that a series of rules designed to support the delivery of the Authority's Annual Procurement Plan are set out within the Contract and Procurement Rules.

4.3.5 The procurement process is conducted through Ealing Council's services, and there is only one approval level set up within the system. This singular approver, 'AppleV1' is set up to approve all decisions under £1million. Because the employees at the Authority do not have access to the procurement system, to approve payments, this control is adequate in relation to these risks. However, due to the nature of this control framework, additional testing was undertaken to ensure all decisions processed through the procurement system had been approved by permanent WLWA Officers before being sent across to the London Borough of Ealing for processing. Our sample testing of nine transactions confirmed, in each case sampled, that the approval was granted in line with the documented delegated financial authority.

4.3.6 All contracts over the value of £25k must be added to the contracts register, as per the requirements set out within the Contract and Procurement rules. Testing on the contracts register was completed and showed that it was in place and up to date. Three contracts, from 2016 and 2017 were selected and reviewed against the Schemes of Delegation and the declaration of interests register. As there are no declared interests, no conflicts were identified. However, initially we were unable to obtain clear approval, as per the Schemes of Delegation. Approval has since been obtained, retained on a previous member of staff's email account however an appropriate control framework should be put in place to capture authorisation moving forward (refer to **Recommendation 3** in **Appendix A**).



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#### 4.4 Evidence to Support Decisions

- 4.4.1 Within all three systems reviewed (Finance, HR, Procurement) an effective management trail of evidence was found to be in place to support the decision. Further, a document retention policy is in place, detailed within Appendix 1 of the Financial Regulations. This document sets out the type of document and then additionally details how long the document must be retained; e.g. Risk registers must be retained for seven years. This includes the requirement to retain the annual scheme of financial delegation for employees for a period of three years.
- 4.4.2 The SD to Officers includes a series of financial requirements, a sample of which were reviewed as part of testing. We were able to confirm that the 2016/17 annual accounts were appropriately signed off by the Treasurer. However, we were informed by the Head of Finance and Performance that no amounts had been written off over the previous year and no assets had been disposed of. We were therefore unable to test these areas due to lack of activity.
- 4.4.3 Finally, we are pleased to confirm that delegated decisions are reported to the Authority meeting through the Budget Monitoring report to members. Section 3 of this report provides transparency over operational arrangements with the standard section summarising any significant financial decisions made by the Director and/or Chief Officers under the SD to Officers since those reported to the last Authority meeting. These are detailed within the Appendix to this report and we consider this to be notable practice given the enhanced transparency provided to Members, enabling oversight and ability to hold management to account for decision making (refer to **Notable Practice 4** in **Appendix B**).

#### 4.5 Agresso

- 4.5.1 We undertook testing to ensure all decisions processed through the finance systems had been approved by permanent members of staff in accordance with delegated financial levels of authority. Access to the Agresso system was reviewed and it was confirmed that logical access controls were in place to restrict access to the system. Examination of the Agresso system access rights highlighted that appropriate staff had access to the system, ensuring compliance with the Scheme of Delegation. A series of transactions were reviewed to ensure that the correct approval had taken place in line with the schemes of delegation and delegated authority. All transactions were found to be in line with the SD.

### 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: Daniel Lovell  
**Internal Auditor**

This audit was reviewed by: Martyn White, CMIIA CIA  
**Senior 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>Management should consider ensuring that the annual declaration exercise for all staff, required by the code of conduct is completed.</p> <p>This should be documented within a register of Officer pecuniary interests to identify any business / commercial / financial interests held which might give rise to a potential conflict of interest.</p> <p>This register should be maintained in addition to the annual related party declaration completed for the annual statement of accounts.</p> <p>Proactive work is undertaken to increase awareness in the Declaration of Interests Register to ensure that Officers are proactive in declaring their interests in a timely manner (para.ref 4.2.3).</p>	<p><i>Without sufficient awareness and knowledge of interests, there is an increased risk that potential conflicts may arise which will not be appropriately recorded.</i></p> <p><i>If materialised this may highlight a lack of transparency and in turn could lead to reputational damage to the Authority or the Authority's legal position on for example a contract tender being compromised.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<p><b>TREAT</b></p>	<p>Management will raise awareness of the issues and ensure all employees complete an annual declaration as part of the normal year end accounting process.</p> <p>Management will ensure a register is maintained.</p>	<p>30 April 2018</p>

### Good Practice Suggestions & Notable Practices Identified

No.	Observation/ Suggestion	Rationale	Risk Rating
2	Management should consider updating the delegated financial authority template document appended to the Financial Regulations to incorporate delegated authority for HR operations (para.ref 4.3.3).	<i>There is an increased likelihood that decisions and/or authorisations made do not comply with the Authority's approved delegated authority. This would impact the effective decision making of the Authority with potential for challenge and reputational implications.</i>	<b>LOW</b> 
3	Management should consider putting in place an appropriate system to ensure appropriate maintenance and retention of contract documentation and associated approval (para.ref 4.3.6).	<i>Without sufficient records and documentation in place, there is an increased likelihood that contractual decisions and/or authorisations made do not comply with the Authority's approved delegated authority.</i>	<b>LOW</b> 
4	Delegated decisions are reported to the Authority meeting through the Budget Monitoring report to members. Section 3 of the this report provides transparency over operational arrangements with the standard section summarising any significant financial decisions made by the Director and/or Chief Officers under the SD to Officers since those reported to the last Authority meeting. These are detailed within the Appendix to this report and we consider the enhanced transparency provided to Members, enabling oversight and ability to hold management to account for decision making to be good practice (para.ref 4.4.3).	<i>The activity reflects current good practice or is an innovative response to the management of risk.</i>	<b>NOTABLE PRACTICE</b> 



## INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> 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 <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> 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 <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> 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 <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> 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 <b>high risk</b> 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 C (cont'd)

### RISK RESPONSE DEFINITIONS

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

### INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
<b>HIGH</b> ●	The recommendation relates to a <b>significant threat</b> 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. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> ●	The recommendation relates to a <b>potentially significant threat</b> 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. <b>The risk requires management attention.</b>
<b>LOW</b> ●	The recommendation relates to a <b>minor threat or opportunity</b> 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. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> ●	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Authority. <b>The practice should be shared with others.</b>

### **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.

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