



INTERNAL AUDIT

Final Assurance Report 2017/18

Budgetary Control

11th January 2018

Overall IA Assurance Opinion:

SUBSTANTIAL

Recommendation Overview:

High Risk	0
Medium Risk	0
Low Risk	4
Notable Practice	0

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1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was requested by management to be undertaken as part of the 2017/18 annual 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 surrounding Budgetary Control:**
- If budget planning and monitoring processes are absent or not undertaken effectively there is a risk that funds are not utilised effectively, leading to an inability to provide key services. This may also lead to increased potential for poor management decision making, whilst increasing exposure for overspend or fraud to occur;
 - If roles and responsibilities relating to budgetary control are not clearly defined, there is a risk that there could be poor management oversight of income and expenditure. As a result, budget variances and budget pressures may not be identified effectively. Poor monitoring of actual budget positions could impact upon the budget position and lead to poor budgetary control;
 - In the event the Authority does not follow appropriate accounting practices for public finance, there is an increased likelihood of non compliance with legislation resulting in reputational damage and potentially leading to prosecution;
 - If there are inadequate monitoring and control arrangements in place, this could lead to unidentified and inappropriate use of public money and result in unmanageable overspends. This would directly impact the Authority's ability to effectively and efficiently monitor and reconcile budgets on Agresso with increased potential for budgets with a high degree of volatility or risk to be overlooked;
 - If significant variances, virements and budget pressures are not identified, properly reported and appropriately approved this could result in a loss of control over budgeting and actual spends. This may also lead to an inaccurate and imprecise representation of the Authority's overall financial position; and
 - If management information is not produced timely and accurately or used ineffectively, this could lead to a lack of oversight, scrutiny and challenge on budget monitoring and control performance. This could result in poor management decision making and failure to deliver key services.

2. Background

- 2.1 The Authority is responsible for approving and setting the Budget, Governance and Policy Framework, and any subsequent variations. The Treasurer and Director are responsible for taking in-year decisions on resources and priorities in order to deliver the Budget within the financial limits set by the Authority. An annual procurement plan and the Authority Annual Business Plan includes proposals for delivering financial savings, key performance indicators, service and staff development and improvement.
- 2.2 Budgetary Control is an important aspect of financial planning and operations within the authority and is required to ensure that residents of the constituent boroughs continue to receive value for money and the Authority operates efficiently, particularly in light of difficult economic conditions created by Government measures to reduce public expenditure.
- 2.2 An important part of budgetary control is budget monitoring, the process of comparing actual and forecast expenditure and income throughout the financial year. It involves identifying main variances, pressures and risks and taking prompt action to prevent budget pressures from arising or to bring pressures that have arisen back under control. Monitoring budgets and managing financial and accounting controls are key activities of the Authority. It is required to ensure effective management of resources within departments and to produce an accurate overall position statement of the Authority's financial position on a regular basis throughout the year.

- 2.3 Budget holders, who have delegated control over a specific budget, must carry out careful monitoring of the actual positions and be aware of wider factors which may impact on the budget position. This includes the early identification of budget variances to ensure that these can be addressed within budget tolerances.

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 Budgetary Control. 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
Strategy, Policy and Procedures	<p>Substantial Assurance - The Authority's Business Plan 2017 - 2020, approved in March 2017, sets out under how the Authority will develop its services over the period of the Plan. It was confirmed that the financial provision for current year business plan activities were included within and aligned to the approved 2017-2018 budget.</p> <p>Appropriate policies were found to be in place covering all financial accountabilities in relation to the running of the Authority, in particular budget management, monitoring and control.</p> <p>The Authority's Financial Regulations (FRs) provide detailed instructions to assist officers with delegated authority to carry out their financial duties in a proper manner, providing the framework within which the Authority manages its finances.</p>
Roles, Responsibilities and Authorisations	<p>Substantial Assurance - We are pleased to report that roles and responsibilities for the Treasurer, Managing Director, Clerk and Budget Holder are detailed within the FRs and Scheme of Delegations.</p> <p>A rigorous annual budgeting process with regular scrutiny through budget monitoring and reporting to the Authority was evidenced. The draft 2017/18 budget was discussed in November at the Chief Officers Budget Challenge meeting prior to being presented to the constituent boroughs and the Authority meeting in December 2016.</p>
Segregation of duties	<p>Substantial Assurance - There are currently four budget managers within the Authority - the Contracts budget, Corporate Services budget, Operations budget and Waste Minimisation budget.</p> <p>Within the budget reports that go to the Authority meetings, all significant financial decisions are made under the scheme of delegations.</p> <p>The 2017/18 IA review of Compliance with Scheme of Delegation reviewed this area in depth and provided substantial assurance.</p>
Virements	<p>Substantial Assurance - The rules and authorisation limits for virements are appropriately set out under Section 19 of the Authority's FRs</p> <p>There have been no budget virements undertaken this financial year to date and we therefore discussed the process. It is our opinion that the robustness of this process could be enhanced.</p>

Budget Monitoring and Management Information	<p>Substantial Assurance - Following approval by the Authority, the budget is loaded into the Agresso system by the system administrators, Ealing Borough Council. Monthly budget reporting are produced, utilising data form Agresso, but transposed onto spreadsheet to facilitate budget monitoring.</p> <p>We sought to verify whether regular meetings take place between the budget holders and accountants. We were informed that budget holders are met with informally almost monthly, however these meetings are not minuted.</p> <p>Budget monitoring reports are prepared for the Authority meetings, providing an update on the financial position at the end of each period. We were able to confirm that budget reports were presented to each meeting, with actions arising appropriately recorded within meeting minutes.</p>
Variance Analysis and Budget Pressures	<p>Substantial Assurance - In order to facilitate effective budget monitoring, the authority profile budgets on a 1/12th basis to enable variance identification and analysis. A sample of six monthly budget reports were selected to verify whether the reports were available contained commentary regarding variances. High level commentary was noted in all reports where a significant overspend was apparent. Reasoning was provided as to why this is the case but action to be taken to forward was not stated. This will not always be necessary or applicable in all instances where, for example, overspend is a result of seasonal variations. The reports provide a breakdown of the budgets into significant detail, but variances within these are not commented on. .</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 Strategy, Policy and Procedures

- 4.1.1 The joint municipal waste management strategy (JMWMS) agreed by WLWA and the six boroughs provides the vision for the Authority's service delivery to achieve their purpose. The current strategy was first agreed in 2006 with an addendum agreed in 2009 as part of the preparations for the residual waste services procurement and expires in 2020. The JMWMS is the foundation for the WLWA business plan 2017-20 and the associated objectives within.
- 4.1.2 The Authority's Business Plan 2017 - 2020, approved in March 2017, sets out under three key themes how the Authority will develop its services over the period of the Plan. It was confirmed that the financial provision for current year business plan activities were included within the approved 2017-2018 budget. The Medium and Long Term Financial Plan (MLTFP) considers the financial picture over the longer term, identifying the key factors (assumptions) that impact on the Authority's financial position over the medium and long term. The financial modelling performed helps inform the annual budget setting process and was confirmed to be presented to the Authority alongside the draft budget for 2017/18.

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- 4.1.3 Appropriate policies were found to be in place covering all financial accountabilities in relation to the running of the Authority, in particular budget management, monitoring and control. The Authority has Financial Regulations (FRs) in place, which were last approved by the Authority in July 2016. 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.
- 4.1.4 It was confirmed that Section 40 of the FRs state that the required format of the draft budget, including the requirement for it to be approved. Our verification testing confirmed that the draft budget, presented to the Authority in December 2016, contained reference to these items, confirming compliance with the requirements of the FRs.
- 4.1.5 The FRs are communicated to all staff members via the Authority's intranet however, upon review, it was noted that the December 2015 version was communicated rather than the updated version approved by the Authority in July 2016. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix B**).

4.2 Roles, Responsibilities and Authorisations

- 4.2.1 The Scheme of Delegations for the Authority is available on the Authorities website, containing detail as to the responsibilities and processes delegated from the Authority to the Managing Director, Clerk and Treasurer. Authorisation levels are set out within the Scheme of Delegations, including that the Managing Director is responsible for providing a cost effective use of agreed budgets, agree settlement amounts with the Chair, dispose of assets up to £100k. The Treasurer has the authorisation to write off amounts up to £25,000 but less than £100k. Compliance with the Scheme of Delegations was subject to Internal Audit review in 2017/18, obtaining substantial assurance.
- 4.2.2 We are pleased to report that roles and responsibilities for the Treasurer, Managing Director, Clerk and Budget Holder are detailed under sections 13 to 24 of the FRs which, if fully adhered to, will help to mitigate key risks. The FRs stipulates the Treasurer's role is to provide financial information and to prepare the review budget. Budget holders are stated as responsible for the financial affairs of the service area and to monitor and review spend at regular intervals. The financial regulations state the authority is responsible for approving and setting the budget, governance and policy framework and any subsequent variations.
- 4.2.3 During testing, we sought to verify that roles and responsibilities of the budget holders are defined. The job description of the Senior Contract Manager for the Authority was provided which was confirmed to contain responsibilities in relation to budgets including overseeing and regular monitoring. It was noted that the job description does not contain much detail expected of a budget holder. A compensating control is however in place, with the financial delegations document appended to the FRs. This document is required to be completed to delegate financial authority from the Managing Director to an Officer, clearly detailing the requirements of the budget holder. This document was found to be effectively completed for each member of the four budget holders.
- 4.2.4 Upon analysis for the reinforcement of roles and responsibilities via training we were informed that training was last provided to budget holders 3-4 years ago. We were advised that specific training was provided to the Managing Director upon their induction. As there have been no changes to budget holders, the limited training provided was deemed acceptable given the frequency of meetings with budget holders providing sufficient guidance and assistance to the budget holders.
- 4.2.5 There is a rigorous annual budgeting process and regular scrutiny through budget monitoring and reporting to the Authority. The annual budget is discussed in November at the Chief Officers Budget Challenge meeting. The agenda for this meeting was provided,

highlighting the discussion of each budget held by the budget managers for scrutiny. The draft budget for 2017/18 went to all chief officers as well as the constituent boroughs prior to being presented, in draft, to the Authority meeting in December 2016. This report also contains responses from each of the borough partners.

4.3 Segregation of duties

4.3.1 Consideration has been made as there are currently four budget managers within the Authority in relation to the Contracts budget, Corporate Services budget, Operations budget and Waste Minimisation budget. Within the budget reports that go to the Authority meetings, all significant financial decisions are made under the scheme of delegations. The 2017/18 IA review of Compliance with Scheme of Delegation reviewed this area in depth and provided substantial assurance.

4.4 Virements

4.4.1 The rules and authorisation limits for virements are set out under Section 19 of the Authority's FRs, stipulating that budget holders are to seek approval from the Head of Finance and Performance to transfer resources between budgets. Further, where the amount is more than £10,000 and/or more than 10% of the original budget, approvals should be sought from the Treasurer.

4.4.2 We were informed by the Senior Accountant that there have been no virements between any of the budgets to date for this financial year. We therefore discussed the process of a virement and, in order to update the Agresso system, once approval is sought from the Head of Finance and Performance/Treasurer, Ealing Council would be contacted as they currently upload the budgets onto Agresso and undertake system administration. It was felt that the robustness of this process could be enhanced and, as a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix B**).

4.5 Budget Monitoring and Management Information

4.5.1 Following approval by the Authority, the Authority budget is loaded into the Agresso system by Ealing Borough Council, as the system administrators. Monthly budget reporting are produced, utilising data from Agresso, but transposed onto spreadsheets to facilitate budget monitoring. Therefore, the Authority utilise data outside of Agresso, for budget monitoring rather than specific reports from the system source data to identify and highlight variances to budget. Whilst we did not identify any significant variances via this process, we have raised a low risk recommendation to aimed at mitigating the minor risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).

4.5.2 A budget timetable is set and was found to be adhered to enable regular budget monitoring information to be provided. The timetable was provided by the Senior Accountant and was found to appropriately record the dates as to when information is due from constituent boroughs and when reports are to be issued to budget holders and the Authority meetings.

4.5.3 Budget monitoring reports are prepared for the Authority meetings which take place five times per year, providing an update on the financial position of the Authority at the end of each period. Budget monitoring reports are available on the Harrow Council website, along with minutes of the meetings and we were able to confirm that budget reports were presented to each meeting, with actions arising appropriately recorded within meeting minutes.

4.5.4 For the period in which an authority meeting takes place, a detailed budget report is produced for Members detailing the previous period, providing an update on the financial position of the authority, the key operational key performance indicators and delegated financial decisions. The reports were found to contain a high level summary of the

Authority's financial position, with a detailed breakdown appended containing a commentary of any variances to the approved budget. The actual spend against the budget within the period is compared with that forecasted for the year, providing sufficient detail for the stakeholders to review the financial position of the Authority.

4.6 Variance Analysis and Budget Pressures

- 4.6.1 In order to facilitate effective budget monitoring, the authority profile budgets on a 1/12th basis to enable variance identification and analysis. A sample of six monthly budget reports were selected to verify whether the reports were available contained commentary regarding variances. High level commentary was noted in all reports where a significant overspend was apparent. Reasoning was provided as to why this is the case but action to be taken forward was not stated. This will not always be necessary or applicable in all instances where, for example, overspend is a result of seasonal variations. The reports provide a breakdown of the budgets into significant detail, but variances within these are not commented on. Therefore we have raised a recommendation to address this (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.5.2 During testing, we sought to verify whether regular meetings take place between the budget holders and accountants. We were informed that budget holders are met with informally almost monthly, however these meetings are not minuted. Due to the scale of operations at the Authority, with only four budget holders, these meetings are considered adequate to provide sufficient oversight and guidance to budget holders.

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 Head of Finance and Performance and the Senior Accountant, whose advice and help were gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Huda Al-sadi, CIA
Senior Internal Auditor

This audit was reviewed by: Martyn White, CMIIA CIA
Senior Internal Audit and Counter Fraud 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
<i>No high or medium risk recommendations raised</i>						

Good Practice Suggestions & Notable Practices Identified

No.	Observation/ Suggestion	Rationale	Risk Rating
1	The updated Financial Regulations should be uploaded on the Authority Intranet site to enable all staff to be working to current Policy (para ref 4.1.4).	<i>There is an increased likelihood that staff members are unaware of their roles and responsibilities in relation to financial administration, including budgetary control.</i>	LOW ●
2	Management should consider enhancing the virement process to ensure appropriate transparency, including evidencing that appropriate authorisation has been obtained in line with the scheme of delegations, prior to communicating to LB Ealing for processing. Consideration should be taken to include any virements within the budget monitoring reports presented to Authority meetings, requesting approval where appropriate (para ref 4.4.2).	<i>Without an established procedure, there is an increased likelihood that virements are processed between budgets without sufficient transparency or obtaining the required approval as stipulated within the Financial Regulations.</i>	LOW ●
3	Management should consider the benefits of utilising Agresso system generated reports for budget monitoring purposes, minimising duplication of effort via the current excel process (para ref 4.5.1).	<i>The current process duplicates effort whilst increasing the likelihood of errors due to human interaction.</i>	LOW ●
4	Management should consider including commentary within the budget reports as to variances within detailed budgets to enhance information provided to stakeholders (para ref 4.6.1).	<i>Where budget commentary is not appropriately detailed there is an increased likelihood and adequate management trail of commentary as to variances in budget is not maintained, impacting the effectiveness of budget monitoring.</i>	LOW ●

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 C (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.

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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