



# INTERNAL AUDIT

## Final Assurance Report 2018/19

### Twyford Fraud Incident

6<sup>th</sup> December 2018

#### Overall IA Assurance Opinion:

**LIMITED**

#### Recommendation Overview:

High Risk	0
Medium Risk	3
Low Risk	4
Notable Practice	0

#### Review Sponsor:

Emma Beal

Managing Director, West London Waste Authority

#### Final Report Distribution:

Jay Patel

Head of Finance, West London Waste Authority

Peter Tilston

Project Director, West London Waste Authority

Ken Lawson

Senior Contracts Manager, West London Waste Authority

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



## 1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review has been added to the 2018/19 IA Plan at management's request. **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 the Twyford Fraud Incident:**
- Without clear guidance on procurement card usage, enforced sanctions and active monitoring, there is a **risk procurement cards are misused**, resulting in fraud incidents, financial loss to the Authority and reputational damage;
  - If authority **assets and equipment are not sufficiently safeguarded**, there is a risk employees may steal and sell items for personal gain, impacting the ethical culture of the organisation and resulting in financial loss to the Authority;
  - If a strict HR vetting processes is not in place, there is a **risk inappropriate personnel gain access to the Authority** by deception, resulting in financial loss through fraud;
  - If performance management processes are absent, there is a **risk of insufficient management oversight**, potentially having an adverse impact upon performance, impacting the achievement of objectives and resulting in financial loss; and
  - If agency recruitment contracts do not contain sufficient clauses regarding vetting procedures and contract defaults, there is a **risk candidates gain employment through deception** and the Authority fails to achieve value for money; resulting in increasing the Authority's fraud exposure and financial loss to the Council.

## 2. Background

- 2.1 In July 2018, it was identified that an employee at the WLWA's Twyford site had committed acts of fraud, with the estimated cost to the Authority being just under £15,000. The Authority investigated the matter internally resulting in the dismissal of the perpetrator and referral to the police for further investigation.
- 2.2 The fraudulent acts by the employee (the Twyford Site Manager) included:
- Misuse of a WLWA procurement card for personal gain - supporting documentation is unavailable for a number of transactions but the total fraudulent spend is estimated at £11,300;
  - Selling company office equipment (Microsoft surface tablet and mobile phone) for personal gain - the estimated value of this kit is approximately £1,200;
  - Misappropriating cash takings from the Twyford site on 25<sup>th</sup> April 2018. These funds, amounting to £2,400 remain unaccounted for; and
  - Used the Authority's supplier account with Acro to order goods for private use (cleaning products) and circumvented procedure to collect the items from the supplier, resulting in the Authority being unable to verify receipt of the goods in the sum of £50.
- 2.3 WLWA Senior Management subsequently requested that the 2018/19 IA Plan be adjusted to include a review of the fraud incident and identify any weaknesses in the control environment/associated systems which may have contributed to the opportunity for fraud to be committed and provide assurance over the fraud response/action taken to date.

## 3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **LIMITED** assurance over the key risks in relation to the Twyford Fraud Incident. An assessment for each area of the scope is highlighted overleaf:

Scope Area	IA Assessment of WLWA
Procurement Cards	<p><b>LIMITED Assurance</b> - Procurement card guidelines are mentioned in the WLWA Financial Regulations and Expenses Policy. However, there is currently no detailed, end-to-end procurement card procedural guidance. In the absence of a cardholder agreement, cardholder roles and responsibilities are currently communicated informally (verbally) upon card allocation and any updates communicated via email.</p> <p>Further, there is currently no management information generated outside of the monthly total spends provided by HSBC. Neither is there any trend analysis of total spend or transaction volume.</p> <p>Whilst it is good to see that receipts and supporting documentation are requested for transactions monthly, practices which initiated the original fraud investigation, there is currently an ad-hoc procedure for approving statements that are missing receipts, whilst stating on the monthly statement transactions will be monitored moving forward, with no indication how monitoring will take place. There is no documentation or procedural guidance to reinforce the monitoring of transactions.</p> <p>Additionally, the limited guidance currently in place has not been reviewed or updated regularly, with the Financial Regulation last reviewed July 2016 and the Expenses Policy last reviewed June 2013.</p> <p>The control weaknesses allowing the fraud to occur were major control weaknesses and posed a significantly high risk to the Authority. However, given the actions undertaken by the Authority in the immediate aftermath of the fraud, the risk management has travelled in a positive direction.</p>
Recruitment Processes	<p><b>LIMITED Assurance</b> - During testing we found there to be detailed procedural guidance in place including the WLWA Recruitment Policy and the WLWA Probation Policy. However, these policies have not been reviewed since March 2014.</p> <p>A review of the Recruitment Policy identified some aspects are vague and enhancements could be made, for example what constitutes a substantial/ acceptable reference for a candidate.</p> <p>Further, we were unable to evidence that probation reviews are being consistently carried out, recorded and agreed by line management in alignment with the WLWA Probation Policy, with all 3 of the new starter samples tested missing key reviews.</p>
Performance Management	<p><b>LIMITED Assurance</b> - There is a clearly documented WLWA Capability Policy which provided an overview of expected behaviours for all staff.</p> <p>In addition, the WLWA Performance Management Scheme provides guidance on the annual appraisal process and standardised templates for the annual appraisal. However, there is currently no guidance in place for monthly or regular 1:1 sessions between line management and staff. During testing we were advised that there is a lack of buy-in from line management into the Performance Management Scheme, forcing senior management to chase individuals to ensure completion of the process, which results in appraisals being completed outside of the expected timeframe.</p> <p>The control weaknesses allowing the fraud to occur were major control weaknesses and posed a significantly high risk to the Authority. However, given the actions undertaken by the Authority in the immediate aftermath of the fraud, the risk management has travelled in a positive direction. As a result, Internal Audit has been able to provide <b>LIMITED</b> assurance, rather than <b>NO</b> assurance.</p>

Scope Area	IA Assessment of WLWA
Recruitment Agency Contract Administration	<b>REASONABLE Assurance</b> - With the vast majority of recruitment carried out internally, contracted recruitment agencies are only used by the Authority on an ad-hoc and rare basis. Our examination of terms with one contracted supplier evidenced an agreement in place covering key roles, responsibilities and relevant processes. However, the agreement was not signed and failed to specify a clear expiry, review or renewal date.
Office Equipment	<b>REASONABLE Assurance</b> - There is an asset register in place listing all key assets, their location and the designated manager responsible for the asset. There is accompanying procedural documentation to support the consistent management and logging of assets to the register and the WLWA Code of Conduct clearly outlines appropriate use of office equipment and the roles and responsibilities of equipment users. However, some of the procedural documentation has not been reviewed for several years.

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 Procurement Cards

4.1.1 The Authority currently documents its financial policies and procedures through the WLWA Financial Regulations and the WLWA Expenses Policy, both documents cover a range of financial issues and processes undertaken by the Authority, including procurement cards. However, the guidance surrounding procurement cards is very brief. The Financial Regulations briefly states what a procurement card can be used for and that the cardholder is responsible for providing supporting evidence. The Expenses Policy states what expenses should be purchased using the procurement card. However, there is currently no detailed, end-to-end procedural guidance available for the procurement card process and roles and responsibilities are not clearly defined. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.1.2 We established that management provides informal training on the processes of using procurement cards and reconciliations, verbally advising a card holder of guidance upon allocation. Our testing confirmed that in the event of updates to policy or procedures, emails are sent out to cardholders. However, these informal arrangements meant we were unable to fully evidence training taking place. We have discussed with management the introduction of a cardholder agreement to ensure cardholders fully understand and accept their roles and responsibilities. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.1.3 Since commencing fieldwork, additional controls around procurement cards have been introduced. Management have removed all cash facilities, arranged for cardholders to receive electronic monthly card statements, deadlines are now given to cardholders for providing receipts and cardholders have been advised that cards will be disabled if receipts are not provided promptly. Due to their recent introduction, these controls were not formally documented within procedural guidance at the time of testing.

---

## 4.2 Recruitment Processes

- 4.2.1 During our detailed testing we were able to identify both a Recruitment Policy and a Probation Policy, providing an overview of the recruitment, induction and probation processes at the Authority. However, we found that both policies had not been evidenced as reviewed since March 2014. As a result, we have raised a recommendation aimed at mitigating this minor risk (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.2.2 The WLWA Recruitment Policy provided a detailed overview of the recruitment process, including obtaining references for candidates. The Policy clearly captured the number of references required, appropriate and inappropriate sources for referees and provided a reference template to ensure a minimum required level of information is obtained.
- 4.2.3 Review of the Policy identified that clarity could be provided on what constituted a suitable reference and an unacceptable reference. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).
- 4.2.4 During testing we sought to verify compliance against the Authority's Induction and Probation Policy. We evidenced this by following a candidate's journey after they accepted a position within WLWA. We were provided with a plethora of induction materials, including checklists for new starters and presentations which provided an overview of WLWA's history and objectives, and insights on employee duties in relation to corporate policies such as code of conduct, health and safety, absence management and IT usage.
- 4.2.5 We randomly sampled 3 members of staff who have been recruited after January 2017 to verify adherence to the WLWA Probation Policy. Our testing found:
- 1 sample could not evidence the 10 week probation review;
  - 2 samples could not evidence the 17 week probation review; and
  - 1 sample could not evidence the 26 week probation review.
- 4.2.6 As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).

## 4.3 Performance Management

- 4.3.1 Management provided us with a detailed Capability Policy which clearly outlines expected behaviours and competencies for all WLWA staff, along with a comprehensive disciplinary procedure. However, as with several documents considered as part of the review, we found that key documentation had not been reviewed regularly, with document dates ranging from July 2013 to May 2015. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.3.2 Through our testing we also located a Performance Management Scheme which provided an overview of the annual appraisal process, setting out expectations of management and staff.
- 4.3.3 We randomly selected 3 appraisals for individuals from different teams across the Authority and sought to verify compliance with the Performance Management Scheme. During testing we found:
- 1 sample did not record new SMART (Specific, Measurable, Achievable, Realistic and Timely) targets for the coming year; and
  - 2 samples did not provide reasoning or rationale for the appraisal scores.

- 
- 4.3.4 As a result, we have raised a recommendation designed to strengthen controls in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).
- 4.3.5 We conducted some additional testing to establish whether regular 1:1 sessions take place to support the annual appraisal process and monitor individual performance. However, we were unable to locate procedural guidance or templates for 1:1 sessions. We have raised a recommendation designed to strengthen controls in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

#### 4.4 Recruitment Agency Contract Administration

- 4.4.1 Management advised that the majority of WLWA's recruitment is completed internally but occasionally an external recruitment agency is used, where vacancies prove difficult to recruit. We sought to establish that an agreement was in place between the Authority and Acre Recruitment, an agency used previously to source candidates. We found an agreement was in place, outlining roles and responsibilities of both parties and the recruitment process. However, the agreement was not signed and failed to specify a clear expiry, review or renewal date. During testing we found that spot purchase agreements were being made with generic terms of service. The use of such agreements with standard terms of service increases the likelihood of paying premium rates and reduces the safeguards in place to protect the Authority should unfortunate events occur. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 6** in the Management Action Plan at **Appendix B**).

#### 4.5 Office Equipment

- 4.5.1 The Authority maintains a detailed asset register that logs and tracks any asset owned by the Authority with a value higher than £250. The register highlights the asset's location and the designated manager responsible. We also established procedural guidance was in place to support the register, highlighting how to log a new item to the register, who has responsibility for maintaining the register and the process for removing assets. However, at the time of testing we found timescales for reviewing the register (to ensure it remains both up to date and accurate) were not documented within the procedural guidance. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 7** in the Management Action Plan at **Appendix B**).
- 4.5.2 The WLWA Code of Conduct and IT procedures provide further guidance for the use and handling of office equipment. Both set out what is appropriate and inappropriate use, along with monitoring procedures. The IT procedure guide must be signed by all WLWA staff to ensure all roles and responsibilities are understood and accepted, in line with best practice.

### 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, Finance Officer and the Operations Manager, whose advice and help were gratefully appreciated.

### 6. Internal Audit Contact Details

This audit was led by: Sam Horton, **Internal Auditor**

This audit was reviewed by: Chloe Moorcroft, **Senior Internal Auditor**

Thank you, Muir Laurie FCCA, CMIIA, **Head of Internal Audit**



## APPENDIX A

### Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>Management should consider creating procurement card procedural guidance, defining the end-to-end process. Clear deadlines and timescales for the completion of monthly reconciliations should be defined, along with a process for the regular review of card limits. Management should also consider implementing a cardholder agreement, obtaining cardholders' signature to confirm they understand their role and responsibilities and the repercussions of misuse. Additional controls implemented by management should also be formally documented within the procedural guidance (para ref 4.1.1, 4.1.2).</p>	<p><i>The absence of clearly documented procedures for procurement cards could leave the Authority vulnerable to fraud and inconsistent practices where statements and transactions are not being accurately and promptly reconciled, increasing the likelihood of fraudulent activity going undetected, incurring financial cost and reputational damage to the Authority.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<p><b>TREAT</b></p>	<p>Management will create procedural guidance covering the end to end procurement card process. Management will also produce and implement a cardholder agreement which users will sign to confirm they understand their roles and responsibilities as cardholders as well as the repercussions for misuse.</p>	<p><b>Risk Owner:</b> Head of Finance</p> <p>Jay Patel</p> <p><b>Risk Contributor:</b> Finance Officer</p> <p>Xenab Khan</p> <p>31<sup>st</sup> March 2019</p>

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

## 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 consider updating the WLWA Performance Management Scheme to include procedural guidance and templates for regular 1:1 meetings, which should be used to track performance and progress against performance targets.</p> <p>Consideration should be given to offering training on the updated scheme and introducing a monitoring system to ensure managers and staff comply.</p> <p>Where there is non-compliance, management should obtain feedback on reasons why the appraisal documents are not completed to identify potential enhancements which could be made (para ref 4.3.4, 4.3.5).</p>	<p><i>If an effective and comprehensive performance management process is not in place, there is a risk management will be unable to maintain oversight of officer performance, potentially leading to a drop in effectiveness and efficiency, resulting in the Authority failing to achieve service and wider strategic objectives.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<p><b>TREAT</b></p>	<p>Management will review and update the Performance Management Scheme to introduce a regular 1:1 policy to supplement and support the existing annual appraisal policy.</p> <p>Management will monitor compliance and report non-compliance to senior management for appropriate action.</p>	<p>Head of Finance</p> <p>Jay Patel</p> <p>31<sup>st</sup> March 2019</p>

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



## APPENDIX A (cont'd)

### Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
3	<p>The Authority should consider reviewing its probation procedures and providing training to line managers to ensure the importance of the probation and induction process is understood. This includes formally documenting the completion of induction stages and probation reviews.</p> <p>Further, management should consider including an escalation procedure if line managers are not available to complete scheduled probation reviews to ensure these are completed in a timely manner (para ref 4.2.6).</p>	<p><i>If the probation procedure and the relevant roles and responsibilities are not fully understood by management there is a risk probation reviews are not completed or accurately recorded, potentially leading to insufficient information being collected to make an accurate, informed decision on an individual's performance, leading to unsuitable candidates holding positions within the Authority.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<b>TREAT</b>	<p>Management will review the probation procedure and update it to include measures to ensure timely probation review meetings and documentation completion, as well as an escalation policy to ensure meetings are completed in line management absence.</p>	<p>Head of Finance</p> <p>Jay Patel</p> <p>31<sup>st</sup> March 2019</p>

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

## APPENDIX B

### Good Practice Suggestions & Notable Practices Identified

No.	Observation/ Suggestion	Rationale	Risk Rating
4	Management should consider reviewing all key documents, policies and procedures to ensure they are accurate, up to date, relevant, version-controlled and readily available to all staff members (para ref 4.2.1, 4.3.1).	<i>If documents are not properly version controlled or regularly reviewed, there is a risk the procedures and guidance provided will be out of date or no longer relevant, potentially causing incorrect practices to occur, jeopardising WLWA's ability to achieve its objectives.</i>	<b>LOW</b> ●
5	Management should consider reviewing recruitment guidance to include criteria on what constitutes a 'satisfactory' reference and include guidance on accurate recording and storage of references (para ref 4.2.3).	<i>If it is unclear what qualifies a reference as satisfactory, there is a risk that unsatisfactory references will be accepted, leading to unsuitable candidates being recruited to posts within WLWA.</i>	<b>LOW</b> ●
6	Management should consider reviewing all contracts held by WLWA with recruitment agents to ensure they include (as a minimum) signed agreements and clear timescales for agreement length, review date and renewal options.  Management should also consider, where possible, avoiding the use of spot purchase agreements with generic terms of service to ensure the Authority receives value for money and are presented with suitable candidates (para ref 4.4.1).	<i>If contracts do not have clearly documented expiry and review dates, there is a risk contracts will lose their relevance or effectiveness over time, no longer reflecting the needs of both the Authority and the recruitment agent, resulting in unsuitable candidates being sourced for the Authority's vacancies.  Further, if contracts include generic, unrevised terms of service there is a risk the Authority could pay a premium for recruitment services, causing the Authority to not receive value for money.</i>	<b>LOW</b> ●
7	Management should consider enhancements to the asset register and accompanying procedural guidance. This includes guidance for lost equipment, recording the date of equipment assignment and establishing a timescale for regular reviews of the asset register. Updated guidance should be shared on the WLWA intranet (para ref 4.5.1).	<i>If an accurate asset register is not in place, there is a risk assets are lost, misappropriated and/ or stolen without management being made aware, incurring financial and reputational damage to the Authority.</i>	<b>LOW</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>