

Internal Audit Report 2022/23

West London
Waste Authority

Final Report
April 2023

Procurement and Expenditure

Classification	Trend	By type	Control design	Operating effectiveness	Total
Reasonable	N/A	Critical	0	0	0
		High	1	0	1
Total findings: 4	We have not previously reviewed the area	Medium	0	2	2
		Low	1	0	1
		Advisory	0	0	0



West London Waste

Treating waste as a valuable resource

Executive summary (1 of 2)

Summary of findings

This audit has been undertaken as part of the West London Waste Authority (WLWA) 2022/23 Internal Audit Plan.

The purpose of the audit was to review the robustness of the WLWAs controls in place in relation to Procurement and Expenditure. The audit focused on procurement policies, procedures and legislation, selection of contractors to invite to tender / quote, authorisation /approvals, expenditure policies, procedures and legislation, suppliers, delegated authority limits and segregation of duties, transaction process and supporting documents, payment terms, credit cards, reconciliations, and management reporting / monitoring.

We found weaknesses in relation to contracts in place / signed, setting up of suppliers and amending supplier details along with segregation of duties issues when ordering and authorising payments.

We have raised actions to mitigate one High Risk finding, two Medium Risk finding and one Low Risk finding.

Key findings

High Risk

- **Contracts** – None of the procurement cases examined had signed contracts in place.

Medium Risk

- **Suppliers** – Weak evidence to demonstrate checks performed and a lack of instruction on amendments to supplier details.
- **Segregation of Duties** – Managers can and do make orders and authorised their own purchases.

Low Risk

- **Credit Cards** - Credit card expenditure is not monitored by line managers.
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Executive summary (2 of 2)

1	Contracts	High
2	New and Amendments to Supplier Details	Medium
3	Segregation of Duties	Medium
4	Credit Card Checks	Low

By Scope Area

	Critical	High	Medium	Low	Advisory
Policies, procedures and legislation (Procurement)	0	1	0	0	0
Selection of contractors to invite to tender/ quote.	0	0	0	0	0
Tender and evaluation	0	0	0	0	0
Authorisation / approvals	0	0	0	0	0
Policies, procedures and legislation (Expenditure)	0	0	0	0	0
Suppliers	0	0	1	0	0
Delegated authority limits and segregation of duties	0	0	1	0	0
Transaction process and supporting documents	0	0	0	0	0
Payment terms	0	0	0	0	0
Credit Cards	0	0	0	1	0
Reconciliations	0	0	0	0	0
Management reporting / monitoring	0	0	0	0	0
Total	0	1	2	1	0

Background and scope (1 of 2)

Background

The WLWA have large contracts in place for all elements of the waste and recycle operations. There is a procurement policy in place and an annual procurement plan which is presented to the Board each year. Purchasing outside of the operational contracts (purchases not featured in the waste system) are managed separately and are relatively small in comparison. It is estimated that this side of the accounting receives around a 1000 invoices per year.

The purpose of this audit is to assess the management of Procurement and Expenditure.

Background and scope (2 of 2)

Scope

The audit work focused on the following areas –

- **Procurement including –**
 - Policies, procedures and legislation.
 - Selection of contractors to invite to tender or quote.
 - Tender invitation and evaluation.
 - Authorisation / approvals.

- **Expenditure including –**
 - Policies, procedures, and legislation.
 - Suppliers.
 - Delegated Authority limits and segregation of duties.
 - Transaction process and supporting documents.
 - Payment terms.
 - Credit cards.
 - Reconciliations.
 - Management reporting / monitoring.

Limitation of scope

Our work was limited to the sub-processes and control objectives outlined above. The scope of our work also did not cover IT controls and processes, such as interfaces.

Management should be aware that our internal audit work was performed in accordance with Public Sector Internal Audit Standards 2017 (PSIAS) and the Local Government Application. The assurance grading provided in our internal audit reports are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. Our internal audit testing was performed on a judgemental sample basis and focussed on key controls mitigating risks. Our testing was designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that in relation to the scope above, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

Current year findings (1 of 4)

Formalising Contracts Delay

Control Design

1

High

Finding and root cause

We examined the procurement process for the following contracts –

- West London Composting (Green Waste)
- Matt UK (Mattresses)
- Circom (Mattresses)
- DSSL (CCTV)

The CCTV procurement was not a contract but involved the WLWA purchasing equipment and installation by the supplier chosen via procurement exercise. The WLWA have contracted with DSSL for maintenance of the cameras but the contract is has yet to be provided.

The Matt UK and Circom contracts are with HB Law and have been with them to pull together since September 2022. We were provided with evidence that the WLWA have been asking for the contracts to be completed.

We were advised on the 27th February 2023, that the West London Composting contract was almost ready and needed some information added. This was also sent to HB Law in September 2022.

Implications

- Unplanned costs to the WLWA
- Disagreements which are difficult to resolve without a signed contract
- The retraction of service without notice.

Action plan

- 1) We will consult with HB Law to ensure that there are appropriate legal cover /arrangements in place to mitigate the WLWA's risk in the absence of signed contracts and SLA's being in place.
- 2) We will review the Legal Service arrangements to determine if the current service is fit for purpose or if improvements can be agreed with HB Law.
- 3) We will meet monthly with HB Law to ensure work is being progressed as agreed.

Responsible person/title

Beth Baylay (Contracts Manager)

Target date

30th June 2023

Current year findings (2 of 4)

New Set Up and Amended Supplier Details

Control Design

2

Medium

Finding and root cause

Instances of fraud or attempts to commit fraud are common in the supplier set up or amendment to supplier bank details.

New suppliers are set up by Finance once details are verified. The checklist used covers three validation topics including -

- Supplier Contact Details – this includes questions such as VAT and company registration information as well as contact details.
- Vendor Details – this includes payment terms and basic company details.
- Supporting Documents – This is where checks are made for headed paper letters, banking, tax and NI information and the sign off from the Head of Service.

We found that there was clear instructions for new suppliers but nothing for amendments to supplier details. We were informed that the same process is followed but it does not inform staff to verify amendment request via a telephone call using the existing telephone information and not the telephone noted on the amendment request which is a key control to prevent fraud.

We examined the checklists for five new supplier set ups and found the following issues –

- 3/5 did not have the Head of Service sign off on the checklist.
- 1/5 was a sole trader but the National Insurance Number was not provided as per policy notes on checklist.
- 1/5 showed no evidence of paying tax yet the checklist is ticked to show tax information was checked. There was nothing in the information on file to show the suppliers tax position.
- 1/5 required CIS confirmation but this was not checked off the checklist. The information was requested.
- 5/5 did not note who requested the supplier to be set up.
- The checks made and results are not noted or evidenced with screen prints or summary conclusions.

We examined five amendments to suppliers which were selected randomly and were all bank detail changes –

- None of the cases checked did not note if verification / confirmation telephone calls were made using the existing details to ensure the request came from a genuine officer from the supplier. No notes on who contacted were provided.
- A request to change bank details from the London Borough Brent was on headed paper but included a link to the back details which did link to Brent but not to a working page.

We would like to note that improvements were immediately put in place and the risk score has been reduced to reflect this.

Implications

- Successful fraud attempts due to flawed verification process.
- Inconsistency due to a lack of instructions for amendments to supplier details
- Tax liability where the tax position of suppliers is not verified.
- Lack of ownership if fraud is found but no evidence of original request to set up or amend supplier details.

Action plan

- 4) The New Supplier Set Up Instructions are updated to include instructions on what to do if a supplier amendment request is made.
- 5) Supporting documents and screen shots showing checks from the checklist have been performed and the outcome of the successful checks.
- 6) Confirmation calls are noted giving details of what number was used and who the call was made to.
- 7) Requestors for new suppliers are noted on file.
- 8) Requests are not accepted unless fully signed off by the requestor and Head of Service.
- 9) The Finance Manager signs the checklist to confirm checks performed by a different office

Responsible person/title

Sapna Dhanani (Finance Manager)

Target date

31st March 2023

Current year findings (3 of 4)

Segregation of Duties

Operational Effectiveness

3

Medium

Finding and root cause

The WLWA expenditure outside of the main waste business transactions is relatively small. We were informed that under 1,000 invoices were received each year. However, there still needs to be robust controls in place to control the workflow to reduce the risk of fraud and error.

We examined a sample of 17 transactions from the previous 12 months and found the following –

- There was no formalised segregation of duties process which meant that budget holders could order and approve their own expenditure. We found two examples of this in the sample with a value of £3000. The authorisation limits for invoices range from £5000 to £1,000,000.
- One of the Managers approving the transaction within our sample, is also the person who makes the orders. Within our testing, the three purchases were in this Managers area were all approved by SLT as they were companywide purchases such as a facilitator for leadership meeting. As this Manager works on her own, there would be no segregation of duties in other purchases. This was proven when I enquired about one of the transactions listed in the budget report which appeared to be questionable. The line Manager confirmed that this was not authorised expenditure and should not have been made without permission.
- Another Officer ordered IT equipment and authorised the invoice.

Implications

- Unauthorised or fraudulent transactions are made due to a lack of segregation of duties.
- Payments are made without adequate backing papers on file to complete an audit trail.

Action plan

1) Purchase orders are introduced to ensure that segregation of duties is in place to ensure that individuals are not ordering and authorising payments.	Responsible person/title Sapna Dhanani (Finance Manager)
2) Managers / budget holders are reminded to retain documents to support any orders / expenditure to complete	Target date 30 th June 2023

the audit trail.

- 3) Line Managers of budget holders should check the expenditure on budget monitoring reports to deter financial abuse.
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Current year findings (4 of 4)

Credit Card Checks

Control Design

4

Low

Finding and root cause

Credit cards are in place for four officers within the WLWA staffing structure. Each officer has signed an agreement that agrees to use the cards responsibly.

Card Holder Job Title
Strategic Development Lead
Finance Project Manager
Finance Director
Finance Manager

We examined the card statements and receipts / invoices for the above card holders for a random five months and found the expenditure to be business related in all cases. We also checked the journals to ensure the card expenditure was placed in the correct budget.

The statements are checked by a finance officer during the reconciliation process and would highlight unusual purchases. However, we did note that none of the statements are checked by the cardholder's line management to ensure each transaction is valid, authorised and a genuine business expense.

Implications

Financial misuse if card expenditure is left unchecked.

Action plan

- 1) At least quarterly, line managers are provided with statements from card users under their management to check and challenge if necessary.

Responsible person/title

Sapna Dhanani (Finance Manager)

Target date

30th June 2023

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on client's operational performance; or
- **Critical** impact on client's monetary or financial statement; or
- **Critical** breach in laws and regulations that could result in material fines or consequences for the client; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability of the client.

High

A finding that could have a:

- **Significant** impact on client's operational performance; or
- **Significant** impact on client's monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequence for the clients; or
- **Significant** impact on the reputation or brand of the client.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** impact on client's **monetary** or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences for the client; or
- **Moderate** impact on the reputation or brand of the client.

Low

A finding that could have a:

- **Minor** impact on client's operational performance; or **Minor** impact on client's monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences for the client; or
- **Minor** impact on the reputation of the client.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation, or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control, and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.