



INTERNAL AUDIT

Final Assurance Report 2017/18

Staff Expenses including Petty Cash

15th December 2017

Overall IA Assurance Opinion:

REASONABLE

Recommendation Overview:

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

Review Sponsor:

Jay Patel

Head of Finance & Performance

Report Distribution:

Xenab Khan

Finance Officer

Emma Beal

Managing Director

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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 staff expenses including petty cash.**

2. Background

- 2.1 West London Waste Authority (WLWA) will pay all reasonable expenses necessarily incurred by employees in the performance of their official duties. These expenses may arise because the employee is required to carry out duties, attend training courses, seminars, workshops, etc or to represent the Authority, or the Authority's interests, at a location away from their normal place of work or outside their normal hours of work.
- 2.2 All expense claims must be made electronically via 'I-Trent' the employee self service system. The claimant and the line manager approving them have a responsibility to ensure that all expenses are correctly submitted. Employees may claim for reimbursement of travel expenses, parking costs or congestion charge. In addition employees may claim subsistence allowance in accordance with the guidelines.

3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for Staff Expenses including Petty Cash. 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
Policies and procedures	<p>Reasonable Assurance: Through testing we were able to verify that the Authority has guidance documents in place, in relation to expenses. There is an Expenses Policy and Expenses Guidance document, both of which are available to staff, via the intranet.</p> <p>It was identified during testing, that there is currently no guidance documentation in regards to petty cash maintained by the Authority.</p>
Validity of expense claims, including: <ul style="list-style-type: none">Processing;Authorisation, including segregation of duties; andPayment.	<p>Limited Assurance:</p> <p><u>General Expenses</u></p> <p>We selected 40 expense claims, and sought to verify that they were claimed in line with the aforementioned Expenses Guidance and Policy. In 7 of the 40 cases sampled we were unable to reconcile the transactions to supporting receipts. In four of these seven instances, the supporting receipts were not provided, whereas in the remaining three instances the receipts provided did not reconcile to the claimed amount.</p> <p><u>Mileage</u></p> <p>We obtained a mileage expenditure report covering the 12 month period to August 2017. We randomly selected a sample of 25 mileage claims during this period to ensure they were processed in line with the Expenses Policy and Expenses Guidance. We were able to confirm, in 24 of the 25 cases sampled, that mileage claims were paid in line with the Policy. One exception was found to have been paid in error, having used the incorrect cost centre.</p>

Scope Area	IA Assessment
Petty Cash arrangements including; <ul style="list-style-type: none"> • Records and documentation; • Accountability and authorisations; • Reimbursements 	<p>Reasonable Assurance: As previously stated in there is currently no guidance documentation in regards to the management of the Authority's petty cash. The necessity for guidance document is somewhat negated by limited usage of petty cash with no withdrawals noted in the previous two years, questioning the need for ongoing management of petty cash.</p> <p>We performed our own reconciliation of the petty cash, and are pleased to state that the total amount maintained agreed. Nevertheless, we did note that the denominations held did not reconcile to the petty cash accounting sheet. Furthermore, we identified that £1 coins within the petty cash were no longer legal tender, taken out of circulation on 16th October 2017.</p>
Management Monitoring and Reporting	<p>Reasonable Assurance: We are pleased to evidence that regular reporting of mileage claims is performed, produced on a monthly basis and detailing the expenditure for the previous period. However, there is no similar reporting mechanism for staff expenses including subsistence and other travel costs.</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 The Authority has guidance documents in place in relation to expenses, including an Expenses Policy, dated June 2013, and a supplementary Expenses Guidance document, dated April 2014. Both of these documents were found to be readily available to staff, via the authority's intranet. Upon review it was confirmed that these documents capture the principles, roles and responsibilities and eligibility criteria for claiming expenses. Furthermore, they providing the values that can be claimed for subsistence, mileage and overnight stays.

4.1.2 It was identified during testing, that there is currently no guidance documentation in regards to the Petty Cash that is maintained by the Authority however, petty cash transactions are minimal with no withdrawals in the previous two years and a recommendation has been raised in relation to this (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

4.2 Validity of Expense Claims - General Expenses

4.2.1 We obtained a historical expenses report from the iTrent system, displaying 12 months of transactions to September 2017, selecting a sample of 40 expense claims for testing to verify that they had been claimed in line with the Expenses Policy and guidance. We are pleased to confirm that all 40 transactions sampled were found to have been categorised and accounted for correctly.

4.2.2 As part of our testing we sought to reconcile the 40 transactions sampled to supporting valid receipts, as required by the expenses guidance document. However, we were unable to fully reconcile to supporting documentation in 7 of the 40 transactions. In 4 of the 7 exception cases this was due to an absence of receipts whilst each of the remaining three cases we were unable to reconcile the receipt provided to the claimed amount.

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- 4.2.3 In two of the four instances in which a receipt was not provided, the claimants had submitted alternative documentation (a bank statement), which was not deemed sufficient. Whilst this shows expenditure, in the absence of receipts, it is not possible to verify the validity of this claim. In the remaining two cases, Ealing's Payroll Officer was unable to locate the receipts. As a result, we once again were unable to confirm the legitimacy of the expense claims paid.
- 4.2.4 In the remaining three cases, receipts were provided, but did not reconcile to the transaction amount. Although within two of the three instances the variance was not material amounting to 1 pence each. The claimed value in both cases was £71.21, whereas the correlating receipts had transaction amounts of £71.20. In the remaining instance the transaction amount claimed, totalling £119.10 did not correctly tally with the receipts provided. The receipts provided were for a range of expenses such as travel (including taxis, London Underground and train travel) however, there is no clear identification of what the claim relates to and testing could not clearly identify where this total was derived from. As a result of weaknesses identified, we have raised a recommendation (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.3 Validity of Expense Claims - Mileage

- 4.3.1 We obtained a mileage expenditure report, covering a 12 month period to August 2017 from which we randomly selected a sample of 25 mileage claims to confirm they were processed in line with the Expenses Policy and accompanying guidance. We were able to confirm that, 24 of the 25 mileage claims sampled, were paid in line with the Policy. The exception identified (relating to £17.09) had been paid in error through cost centre 1337, relating to first aid allowance, and therefore fell outside the mileage policy. This was placed into this category by mistake, through a miscoding in period 5 and was subsequently rectified in period 6.
- 4.3.2 Upon review of our sample, it was noted that 5 mileage claims were paid outside the agreed three month timeframe, as stipulated in the Expenses Guidance. However, only one of the mileage claims was paid substantially outside the period, 117 days between the journey and the claim. It is noted that mileage expenses are paid through payroll and therefore payroll deadlines and pay dates should be taken into account when assessing this.

4.4 Petty Cash arrangements

- 4.4.1 As previously stated in paragraph 4.1.2, there is currently no guidance documentation in regards to the petty cash, although it was highlighted that there have been no withdrawals over the previous two years. We were informed that reconciliations are undertaken annually, which we were able to evidence in testing. A petty cash accounting document is stored within the petty cash box, and is reconciled against the accounts. This document is reconciled and agreed by external auditors and by the Head of Finance and Performance.
- 4.4.2 The petty cash accounting document captures the denominations of the cash kept in the petty cash box. We performed our own reconciliation during the audit and are pleased to state that the total amount maintained agreed. Nevertheless, we did note that the denominations did not reconcile. Upon further analysis, this occurred when the Bank of England issued a new polymer £5 note. These denominations were replaced, but the petty cash accounting document was not updated.
- 4.4.3 It is also noted that all £1 coins within the petty cash were no longer legal tender, each relating to the old coin which was taken out of circulation on 16th October 2017. A process should be undertaken to ensure that these are replaced with the new 12 sided £1 coin. Furthermore, given the level of usage of petty cash management should consider the ongoing need and usage of this facility (refer to **Recommendation 2** in the Management Action Plan at **Appendix B**).

4.5 Monitoring and reporting

- 4.5.1 We are pleased to evidence that regular reporting of mileage claims is performed, produced on a monthly basis and detailing the expenditure for the previous period. However, there is no similar reporting mechanism for staff expenses including subsistence and other travel costs.
- 4.5.2 It is our opinion that this bi-monthly reporting for expenses, due to the low volume, would aid management and allow them to highlight any emerging trends or erroneous transactions, providing a further detective control and a recommendation has been raised accordingly (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).

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: Matteo Biondi, CIA
Principal Internal Auditor

Thank you,



Muir Laurie FCCA, CMIIA
Head of Business Assurance

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 reviewing the robustness of the approval process for expenses to ensure the accuracy and validity of expense reimbursement.</p> <p>Management should ensure that appropriate mechanisms and checks are performed by the outsourced partner at Ealing Council, to ensure expenses are not paid without supporting documentation (para. ref 4.2.4).</p>	<p><i>In the event that there is a lack of supporting documentation, oversight and verification of expenditure there is increased exposure to fraud, misappropriation and / or theft.</i></p>	<p>MEDIUM</p> <p>●</p>	TREAT	<p>Managers will:</p> <p>1) be reminded to check accuracy of claims and ensure appropriate evidence is provided by their staff before they approve expenses in iTrent</p> <p>2) in the absence of evidence provide an explanation to the Head of Finance to consider and approve if deemed appropriate.</p>	<p>Senior Finance Officer</p> <p>(Xenab Khan)</p> <p>31st January 2018</p>

APPENDIX B

Good Practice Suggestions & Notable Practices Identified

No.	Observation / Suggestion	Risk / Rationale	Risk Rating*
2	<p>Management should consider the continued need for a petty cash facility given its limited usage in the prior two years.</p> <p>If continued, documented procedures should be created for the management of the Petty Cash maintained by the Authority. This should reflect the annual sign off processes and should also ensure that denominations held reconcile to the Petty Cash Accounting sheet. Further, management should ensure the notes/coins stored are still legal tender (para ref 4.1.2 and 4.4.3).</p>	<p><i>Where appropriate policies and procedures are not in place there is a risk that operational duties are not undertaken effectively, efficiently, or consistently. This, in turn, could lead to reputational damage.</i></p>	<p>LOW</p> <p style="color: green; font-size: 24px;">●</p>
3	<p>It is our opinion that this bi-monthly reporting for expenses, due to the low volume, would be sufficient to mitigate any risk. It would also be able to highlight any emerging trends or erroneous transactions being processed through the expenses system (para ref 4.5.2).</p>	<p><i>There is a risk that fraudulent expense transactions could be verified through the system resulting in both reputational damage and financial loss to the Authority.</i></p>	<p>LOW</p> <p style="color: green; font-size: 24px;">●</p>

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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