



INTERNAL AUDIT

Final Assurance Report 2018/19

Reconciliations

5th April 2019

Overall IA Assurance Opinion:

REASONABLE

Recommendation Overview:

High Risk	0
Medium Risk	1
Low Risk	3
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 2018/19 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 Reconciliations:**
- If the reconciliations process is not sufficiently defined and documented within procedural guidance, reconciliations could fail to be conducted regularly and accurately, leading to uninformed decision-making and financial loss to the Authority;
 - If staff are not appropriately trained, there is a lack of contingency cover and potentially insufficient segregation of duties, which could result in reconciliations not being conducted on time or accurately and funds not being accounted for, leading to financial loss, legal implications, regulatory scrutiny and operational issues;
 - If ongoing imbalances and discrepancies are not identified, promptly investigated and rectified, and sufficient documentation is not retained; this weak control environment provides the opportunity for fraudulent acts to be committed and go undetected, resulting in potential financial loss, incidents of fraud and regulatory scrutiny; and
 - If reconciliation outcomes and performance are not measured and reported regularly to senior management, management could have an unclear understanding of the Authority's financial position and funds may not be accounted for, resulting in uninformed decision-making, potential non-compliance with financial codes and misappropriation of funds.

2. Background

- 2.1 Reconciliations form a significant part of good governance and financial control within an organisation. Acting as a detective control, it can provide an organisation with assurance that its financial position is accurate and accounting records are reliable, complete and current.
- 2.2 The key to implementing a robust reconciliations process involves formulating a consistent schedule, ensuring the process is sufficiently and clearly documented, monitoring results for discrepancies, and ensuring that management provide a good level of oversight, scrutiny and control.
- 2.3 WLWA has a system of reconciliations covering four key elements: Treasury, Banking, Accounts Receivable and Accounts Payable. These are scheduled to be completed on a monthly basis, with responsibility for their completion resting with WLWA's Finance Officer. Responsibility for the review and sign-off of completed reconciliations resides with the Head of Finance and Performance.
- 2.4 The Authority utilises the Unit4 software application Agresso as its financial management system, with external administration being provided by Unit4's client support team. Its reporting functionality enables up-to-date and relevant financial information to be drawn from the system, which can then be used as a basis upon which to conduct any reconciliation.

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 Reconciliations. 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 on the page overleaf:

Scope Area	IA Assessment of WLWA
Policies and Procedures	<p>Reasonable Assurance - The Authority has a reconciliation procedure document in place to guide the responsible officer in completing the bank reconciliation. However for the Accounts Payable (AP), Accounts Receivable (AR) and Treasury reconciliation processes, we were unable to locate procedural guidance.</p> <p>We acknowledge that the Treasury reconciliation process is straightforward to conduct and that there are supporting documents available for the broader AP and AR processes. In addition, we established that for each of the 4 reconciliations the Authority undertakes each month, templates are in place and used in completing the reconciliation.</p> <p>However, the introduction of overarching procedural guidance would provide clear expectations on how discrepancies are escalated, how reconciliations are to be recorded and how segregation of duties is to be achieved within a small team for all of the reconciliations. Further, guidance could be enhanced on reporting parameters within Agresso and a timetable could be drafted, defining the expectations around the timing and frequency of reconciliations.</p>
Roles, Responsibilities and Training	<p>Reasonable Assurance - For each of the 4 reconciliations considered, the Finance Officer will perform the initial reconciliation, which is appropriate as they have day-to-day responsibility for managing the Authority's accounting transactions. Our testing verified that each reconciliation is reviewed and approved by an appropriate member of senior management. We would suggest that evidence to demonstrate each officer's suitability for the role is retained on file, for example qualifications.</p> <p>Our testing confirmed that responsibilities for conducting and approving reconciliations are accurately captured and reflected in job description documents. Further, we established that the access profiles created on Agresso are suitable and appropriate to allow other experienced officers to conduct the reconciliations during times of officer absence, if required.</p> <p>We identified a control weakness where the reviewer of the reconciliation also has system access to post accounting transactions on Agresso. However, additional testing established that independence had been maintained.</p>
Management Information	<p>Reasonable Assurance - We are pleased to report that the Head of Finance and Performance, as a member of the senior management team, oversees the reconciliation process each month and is kept abreast of any discrepancies and subsequent investigations/ remedial action.</p> <p>Whilst testing a sample of reconciliations performed during October to December 2018 we established that no material discrepancies had been identified and there was no need to escalate issues as part of monitoring the Authority's financial position and cash flow. The process has not been recorded and should a material discrepancy be identified, it is unclear how this would be escalated and within what timeframe.</p> <p>We acknowledge that the next level of reporting would be to Chief Officers and therefore, the size of the organisation promotes discretion in officers' decision-making but overarching procedural guidance should more clearly define the reporting parameters/ thresholds.</p> <p>We appreciate reconciliations form only a small element of the Finance department's duties but would suggest as best practice that KPIs could be introduced to provide a measurable means of monitoring the process.</p>

Scope Area	IA Assessment of WLWA
Reconciliations Process, Timeliness and Accuracy	<p>Substantial Assurance - After each reconciliation has been conducted, identified imbalances are investigated, explained and allocated swiftly, promoting the accuracy and integrity of the General Ledger (GL). This extends to the Authority's suspense account, with unallocated items being cleared in a timely manner. Manual rectification of unreconciled amounts is also subject to appropriate authorisation.</p> <p>Sufficient documentation in the form of Agresso reports and bank statements are prepared to support each reconciliation. In addition, reconciliations are conducted at the same time each month by an appropriate officer and authorised by the appropriate senior manager, showing good consistency in the process.</p> <p>To enhance the accurate completion of each reconciliation, automation of the process could be explored through the use of Agresso, particularly for the bank reconciliation. Otherwise, use of a marking system would promote the verification of items that have been reconciled by the preparer. This, in conjunction with a timetable, an overarching procedure document and further utilisation of electronic documents would bolster a straightforward, consistent and replicable process.</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 During testing, we found the bank reconciliation process is documented in procedural guidance, detailing which officers should conduct and review the reconciliation, the frequency and the documentation to complete. Whilst we established that cover sheets are in place for each of the 4 reconciliations, we identified that procedural guidance does not extend to the 3 other reconciliations: Treasury, AR and AP and thus, the following is not documented: responsibility for conducting and reviewing each, how to prepare supporting documentation and the escalation process to follow if a discrepancy is identified.
- 4.1.2 During the exit meeting, we discussed the importance of procedural guidance to the control environment; the standards, processes and structures that underpin internal control across the organisation. We acknowledge that WLWA's Reconciliation process operates on a smaller scale than other organisations and the efficiency of the GL process means income and expenditure is promptly allocated, minimising items identified during reconciliations.
- 4.1.3 However, procedural guidance is used to outline current requirements and operations; they are formally agreed by management and enable the identification of key controls within the process. Procedural guidance is required to strengthen the control environment and 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**).
- 4.1.4 Our fieldwork established that the 2 officers primarily responsible for reconciliations showed strong working knowledge of the processes, principles and financial system. There is an accepted practice that reconciliations should be completed during the first week of the month, reconciling the previous month's figures up to the end of the month.

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- 4.1.5 However, these timings and their link to the end of accounting periods are not documented for other officers to follow if required. Shared knowledge of processes is strong due to the Authority's size, but this alone is not a mitigating control. As such, this would be addressed by the medium risk recommendation that we have raised in 4.1.3 (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.2 Roles, Responsibilities and Training

- 4.2.1 A review of the roles, responsibilities and training of Finance staff primarily involved in reconciliations found that responsibility for conducting each month's reconciliations rests with the Finance Officer. The Head of Finance and Performance is responsible for reviewing each completed reconciliation. Training needs for each officer are explored during annual appraisals, providing a forum for identifying any additional training in relation to the reconciliations process.
- 4.2.2 We were advised that officers involved in the preparation and review of reconciliations hold appropriate finance/ accounting qualifications. However, we were unable to obtain evidence of these qualifications, and adherence to continuing professional development (if applicable). 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**).
- 4.2.3 Strong controls were found to be in place in relation to contingency cover for conducting reconciliations. A review of Agresso system access roles found that 4 members of the Finance team have the necessary access to run the relevant reports for conducting reconciliations. Further, 3 members of staff are able to grant Agresso access when it is required. Reconciliation documents are also held on the Finance shared drive to promote business continuity.
- 4.2.4 Our testing of a sample of 12 reconciliations from October to December 2018 (Treasury, Bank, AP and AR for each month) identified that all 12 were signed off as 'reviewed' by the Head of Finance and Performance. However, 1 out of the 12 reconciliations was not signed as 'prepared' by the conducting officer; this was deemed an administrative error.
- 4.2.5 A potential control weakness was identified in testing, where the reviewer has Agresso permissions to post accounting transactions. However, we found no instances of the reviewer posting GL transactions during the sample period, demonstrating their independence.

4.3 Management Information

- 4.3.1 In the sample of 12 reconciliations completed between October and December 2018, we found that the outcomes of each are reported to the Head of Finance and Performance for scrutiny. There were 6 unreconciled items in October 2018, 1 in November 2018 and 9 in December 2018, all relating to the bank reconciliation.
- 4.3.2 Further examination of the unreconciled items identified that all except 1 of these unreconciled items had been explained and allocated before next month's reconciliation, the exception was a £320 payment paid in August 2018 but this is immaterial. This demonstrates a good level of control over the integrity of the GL, with unreconciled amounts promptly investigated and subsequently allocated.
- 4.3.3 The Authority's Management meeting minutes and Finance team meeting minutes for January 2019 were reviewed. Examination of the minutes identified that reconciliation outcomes are not explicitly reported, although it is acknowledged that the Authority's Management meetings focus on more urgent topics and risks.

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- 4.3.4 The Authority's small size means that officers exercise a degree of discretion over the carry-forward and upward reporting of unreconciled items each month. The Head of Finance and Performance reviews reconciliation outcomes and, as a qualified finance professional, can exercise professional judgement in identifying matters for escalation. This acts as a compensating control; we would recommend the implementation of overarching procedural guidance as a directive control, capturing key criteria for material discrepancies that could affect the Authority's financial position and reporting (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.3.5 Testing identified that there is informal monitoring over the effectiveness and efficiency of the completion of reconciliations, evidenced by the informal timing arrangements discussed under para. 4.1.4. In the sample of 12 reconciliations from October to December 2018, it was found that the 4 December reconciliations were completed in the second week of January 2019, a deviation from the accepted practice. This was found to be due to officer absence over the Christmas period.
- 4.3.6 Best practice suggests that Key Performance Indicators (KPIs) should be used to monitor the efficiency and effectiveness of processes; this includes the completion of reconciliations. During the exit meeting with the Head of Finance and Performance we suggested the following KPIs could be introduced:
- Timeliness of suspense account clearance (for e.g. percentage of items reviewed and allocated within a specified period);
 - Approved carry-forward balances (for e.g. the number of months an unreconciled balance is carried forward before write-off/ reconciliation); and
 - Timely completion of each reconciliation (for e.g. the number of reconciliations completed against an agreed timetable).
- 4.3.7 As a result, we have raised a recommendation aimed at implementing best practice measures (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).

4.4 Reconciliations Process, Timeliness and Accuracy

- 4.4.1 Testing of the sample of 12 reconciliations from October to December 2018 identified that Treasury, AP and AR are relatively straightforward processes to undertake, drawing upon Agresso system reports. However, the bank reconciliation utilises printed bank statements and manual entry onto a running log of transactions, relying on the conducting officer to categorise and identify any imbalances appropriately, leaving room for human error. 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**).
- 4.4.2 During testing, we found that there is no system in place to track the items and totals that have been reviewed and reconciled. This is particularly relevant for the bank reconciliation, where the conducting officer cross-refers banking transactions on a printed statement with amounts recorded in GL reports. 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**).
- 4.4.3 Overall, a review of the sample of completed reconciliations demonstrated that they are completed accurately and supported by sufficient and relevant documentation. Imbalances are promptly identified, investigated, explained and rectified, with appropriate review. The addition of overarching procedural guidance, including a timetable and either automation of the process or minor enhancements to the manual process, will strengthen the control environment in both design and operation.

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

6. Internal Audit Contact Details

This audit was led by: Nick Cutbill
Senior Internal Auditor

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

Thank you,



Muir Laurie FCCA, CMIIA
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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 an overarching procedural document that captures expectations for how, when and by whom the reconciliations for Banking, Treasury, AP and AR should be carried out. The guidance should document which officers should conduct and authorise each reconciliation, how to obtain and prepare supporting documentation and the process to follow in the event a discrepancy is identified and escalation is required.</p> <p>This should include a timetable with clear links to the end of accounting periods and setting clear requirements on when reconciliations must be carried out by, and this should be documented in the procedural guidance (para refs 4.1.3 and 4.1.5).</p>	<i>If the reconciliations process is not sufficiently defined and documented within procedural guidance, reconciliations could fail to be conducted regularly and accurately, leading to uninformed decision-making and financial loss to the Authority.</i>	MEDIUM 	TREAT	An overarching procedural document will be produced.	Head of Finance and Performance Jay Patel 30 th June 2019

*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
2	Management should consider the arrangements for storing and accessing copies of qualifications and continuing professional development logs (if applicable) for Finance staff involved in the reconciliations process, to evidence that scrutiny of the Authority's finances is handled by suitably trained and qualified officers (para ref 4.2.2).	<i>If there is insufficient evidence in place to support that staff conducting and reviewing each month's reconciliations are suitably trained and qualified, the Authority may be unable to demonstrate that the reconciliations process is handled by appropriately qualified officers, reducing the reliance which can be placed on reconciliations carried out, potentially impacting the Authority's financial position.</i>	LOW ●
3	Management should consider implementing a set of SMART KPIs, such as: <ul style="list-style-type: none"> • Timeliness of suspense account; • Approved carry-forward balances; and • Timely completion of each reconciliation (para refs 4.3.5 and 4.3.6). 	<i>If reconciliation outcomes and performance are not measured and reported regularly to senior management, management could have an unclear understanding of the Authority's financial position and funds may not be accounted for.</i>	LOW ●
4	Management should consider automating the reconciliations process to promote the efficiency of recording transactions and identifying differences with the General Ledger. (para ref 4.4.1). Alternatively, if automation is not an option, management should consider implementing a system of check marks to track and evidence the completion of each reconciliation (para 4.4.2).	<i>If software is not fully utilised when conducting bank reconciliations, the process is less efficient and creates the opportunity for human error, resulting in potentially inaccurate reconciliations of funds, leading to financial and operational consequences.</i> <i>If it is not clear which items have been reconciled in each instance, entries could be missed and not reconciled with system reports, resulting in inaccurate reconciliations with financial and operational consequences.</i>	LOW ●

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

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.