

Internal Audit Report 2021/22

West London
Waste Authority

Final
February 2022

Income Audit

Classification	Trend	By type	Control design	Operating effectiveness	Total
Reasonable Assurance	N/A				
		Critical	0	0	0
		High	0	0	0
		Medium	1	0	1
		Low	1	2	3
Advisory	0	0	0		
Total findings: 4	We have not previously reviewed the area				



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 WLWA 2021/22 Internal Audit Plan. The WLWA primarily receive income for the disposal of waste for the six boroughs signed up to the authority.

The purpose of the audit was to review the robustness of the WLWAs controls in place in relation to income with a focus on policies and procedures, raising of invoices / credit notes and refunds, debtors and write-offs, reconciliations and payment methods and storage. The approach utilised data where appropriate, to identify potentially anomalous transactions and trends in sample testing.

We have raised actions to mitigate one medium and three low risk findings.

Key findings

We identified no High-risk findings, one medium risk finding and three low risk findings.

Medium Risk

- Cash arrangements should be reviewed if the Brent site continues to claim to be cashless yet accepts cash in some circumstances. The storage of cash will also need reviewing along with banking frequency.

Low Risks

- Prompt invoice raising needs improving and refunds should not be paid out without full details to produce a robust audit trail.
 - Write off sums agreed should be written off promptly and aged debtor reports are signed off.
 - Policies and procedures for income related topics should be regularly reviewed
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Executive summary (2 of 2)

1	Cash Arrangements	Medium
2	Invoices and Refunds	Low
3	Write -offs	Low
4	Policy Reviews	Low

By Scope Area

	Critical	High	Medium	Low	Advisory
Policies and Procedures	0	0	0	1	0
Raising of Invoices / Credit Notes and Refunds	0	0	0	1	0
Debtors and Write-offs	0	0	0	1	0
Reconciliations	0	0	0	0	0
Payment Methods and Storage	0	0	1	0	0
Total	0	0	1	3	0

Background and scope (1 of 2)

Background

The West London Waste Authority (WLWA) are responsible for disposing of waste for six London Boroughs.

- London Borough of Brent
- London Borough of Ealing
- London Borough of Harrow
- London Borough of Hillingdon
- London Borough of Hounslow
- London Borough of Richmond upon Thames

The WLWA has two main streams of income.

1. Monthly levies from the six boroughs above who are receiving the service of the WLWA. The amounts are calculated and agreed before the start of the year and are the focus of budget monitoring. There are two elements to the levy, a fixed charge which remains unchanged and a pay as you throw charge which is reconciled quarterly to ensure boroughs only pay for the waste they dispose.
2. Income generated at the Household Rubbish and Recycling Centre (HRRC) in Brent. This income comes from trade customers who are invoiced and from residents and others who pay by credit card at the weighbridge. There is also an agency charge to Brent for the provision of service to residents.

There are also other minor items of miscellaneous income.

The HRRC is supposed to be cashless but cash has been accepted in some circumstances.

The Senior Management team receive regular reports on the income and debt recovery and key performance indicators have been created to monitor the level of debt each month. The Board receive summary information within board reports prepared.

Background and scope (2 of 2)

Scope

The audit work focused on the following areas –

Policies and Procedures

- Policies and procedures are in place and clearly state the process to follow for raising invoices, income collection and debt recovery.
- Procedures are reviewed and updated on a regular basis and include best practice and changes in legislation and are relevant and available to all staff.

Raising of Invoices / Credit Notes and Refunds

- Income is maximised by the prompt raising of invoices for goods and services that have been provided by the WLWA.
- All requests to raise invoices received in the Finance team are recorded accurately, completely and in a timely manner.
- Cancellation of invoices and credit notes are recorded and posted accurately.
- Refunds from customer accounts are processed for valid reasons in accordance with WLWA policies.

Debtors and Write-offs

- Debtor balances are monitored and managed to maximise income collection.
- Management reports are produced regularly, and debt recovery targets are monitored by Senior Management.
- Write offs of account arrears are processed for valid reasons and in accordance with WLWA policies.
- All write offs are documented and authorisation is retained as part of the overall process.

Reconciliations

- Reconciliations are prepared on a monthly basis which reconcile the balance on the accounts receivable ledger to the general ledger. Supporting g documentation retained which confirms the balances of ledgers.
- Quarterly reconciliations are completed on the “Pay as you Throw” accounts to work out over and under payments for the six boroughs.
- Un-reconciled items are investigated and resolved, and the suspense account total is kept at a minimum.
- Reconciliations are prepared and reviewed by two separate individuals at the appropriate level to observe segregation of duties and delegated authority levels.

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- Reconciliations are prepared and reviewed within one month of the period being reconciled.

Payment Methods and Storage

- Customers are encouraged to pay by accounts or cards.
- Cash is stored in line with insurance limits.

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)

Cash Arrangements

Control Design & Operational Effectiveness

1

Medium

Finding and root cause

The web site for the HRRC at Brent claims not to accept cash but this is not always the case. If a customer pays by card and it is declined or they have forgotten to bring their card after unloading their waste, cash is accepted. Cash is not held in the weighbridge, so customers must agree to pay a rounded-up amount. We found that from the 31 payments made over a twelve-month period, 10 payments were the exact amount owed, 12 payments were more than the amount owed and 9 payments were for less than the amount owed. For this period, £1,633.70 was taken for £1,656.60 owed. We noted that some of the companies paying by cash had been allowed to pay cash previously so they would have been fully aware that cash should not be used.

The safe used at the site is only designed to hold a maximum amount of £1000 cash. At one time, the safe held £2,448.30 which if was subject to theft, would not be insured.

Banking was not undertaken for twelve months during the lockdown despite the site being open. The banking is now done quarterly which still too long as money should be banked as soon as possible.

We also note that there are no procedures regarding income collection (cash).

Implications

- An increased risk of fraud by accepting cash payments.
- Theft of cash will not be insured if exceeds £1000 in the safe.
- Financial information is unreliable due to cash not banked regularly.
- Staff working without procedures causing theft opportunities and inconsistent practices.

Action plan

1) Stop accepting cash at the Brent HRRC site and have a policy in place for those vehicles who do not pay.	Responsible person/title
	Jay Patel (Director of Finance) and Sapna Dhanani Finance Manager)
2) We will improve the site signage and remind drivers at the weighbridge that cash is not accepted.	Target date
	1 st April 2022i

Current year findings (2 of 4)

Invoice Raising and Evidence to Support Refunds

Operational Effectiveness

2

Low

Finding and root cause

The HRRC in Brent provides a service to businesses and residents to deposit their trade and household waste. Chargeable trade waste is generally building materials and chargeable waste for residents can be items such as kitchen or bathroom units or sheds amongst other items or materials. On occasion, errors are made, and customers are entitled to a refund after being overcharged.

We requested a list of all refunds made over the last twelve months and was provided with a list of five. We asked for the backing papers for the list and were provided with backing papers for six refunds. Two of the six cases examined held inadequate backing documents. The total value of the refunds was £444.96

1. Refund to customer requested by site Manager without any explanation of why, and evidence to back up the transaction such as the ticket number, receipt etc.
2. Email to the Finance team from a customer asking for a refund due to overcharging at the HRRC in Brent and providing bank details. Nothing else was provided.

We also checked the timeline for invoice raising from a sample of 15 and found in three cases, the invoices were raised later than 30 days after the event.

Transaction 3002262 = 47 days / Transaction 3002259 = 42 days / Transaction 3002360 = 37 days

Implications

- Fraud may not be detected due to a lack of audit trail for verification.
- Income is not registered on accounts due to slow collection requests.

Action plan

- 1) The refund process is tightened to only process once full details are submitted to provide a clear and robust audit trail.
- 2) Full backing papers are retained for refunds to provide an audit trail record.
- 3) Improvements will be made to raise invoices promptly.

Responsible person/title

Jay Patel (Director of Finance) and Sapna Dhanani Finance Manager)

Target date

Effective Immediately

Current year findings (3 of 4)

Write-offs

Control Design and Operational Effectiveness

3

Low

Finding and root cause

We requested a list of debts written off at the WLWA in the last twelve months but were informed that there were none.

The aged debtor report indicated that one outstanding debt had been outstanding for 2-3 years. A company owed a large sum to the WLWA and in May 2021, a settlement was agreed prior to any court proceedings. The amount agreed was paid in full in June 2021 leaving a shortfall of £17,069.82 which will never be recovered and should have been written off. There has been agreement to write this sum off but as of December 2022, the amount was still showing in the aged debtor report.

Implications

- Management Information is not reflective of actual position if sums required to be written off are still in financial reports.
- Staff work inconsistently if policy and procedures are not in place to follow.

Action plan

- 1) We will action the authorised write off sum immediately.
- 2) We will ensure sums which can never be recovered are written off promptly after authorisation is obtained.
- 3) The aged debtor reports will be signed off by the Finance Manager and the Director of Finance, so sums are not overlooked.

Responsible person/title

Jay Patel (Director of Finance) and Sapna Dhanani Finance Manager)

Target date

31st March 2022

Current year findings (4 of 4)

Policy Reviews

Operational Effectiveness

4

Low

Finding and root cause

The WLWA has a comprehensive list of procedures for staff to access and follow in all areas of the business. We requested all the procedures relating to income and were provided with seven. Four of the seven documents had not been subject to a review in recent years. –

- 1) Raising Invoices - 2017
- 2) Reconciliations – 2019
- 3) Debt Recovery – 2016
- 4) Bank Reconciliations – 2015

There was also no mention of handling cash income which has been highlighted in finding 1 of this report.

Implications

- Income processing may be non-compliant if the procedures are out of date with legislation.
- Staff may work inconsistently where the procedures no longer match the actual process performed
- New staff may work incorrectly due to out-of-date instructions within the documentation.

Action plan

- 1) All policies and procedures relating to income are reviewed and dated to show completion.
- 2) Any changes to the documents are highlighted to staff.

Responsible person/title

Jay Patel (Director of Finance) and Sapna Dhanani Finance Manager)

Target date

30th April 2022

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

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

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

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

Low

A finding that could have a:

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

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.