



St. Helens Council

# Internal Audit Report

## 2013/14

### Merseyside Recycling and Waste Authority Financial Systems

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# Executive Summary 1



**St. Helens Council**

## Merseyside Recycling and Waste Authority

### Financial Systems

#### 1.1 Introduction

Merseyside Recycling and Waste Authority (MRWA) has entered into a Service Level Agreement (SLA) for St Helens Council to provide its annual Internal Audit coverage for the period April 2013 to March 2014.

The agreed Audit Plan includes a review of the Authority's financial systems to provide an assessment of the adequacy of the control environment established, to ensure that objectives are achieved and risks are adequately managed.

#### 1.2 Scope

The review considered the following financial systems: -

- Accounts Payable
- Income Management and Debt Recovery
- Treasury Management
- Payroll and Pensions

#### 1.3 Background

##### Context

There is an SLA between St Helens Council and MRWA for the provision of a number of services, some of which relate to key financial systems. These include Exchequer Services, Financial Information System, Treasury Management Services, VAT Services and Payroll and Pensions. The SLA outlines the responsibilities for the operation of these services for both the Council, as supplier, and MRWA, as the client.

The administration of the financial systems within MRWA is undertaken by Corporate Services.

##### Budget

The charge for the service provided in the SLA for 2013/14 is £128,936.

## 1.4 Audit Opinion

Internal Audit contribute to the overall governance of the Authority by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relation to the areas under review.

Our opinion is based on the work performed as described in the above scope, which was agreed with management prior to the commencement of the review.

Our overall opinion, following this review is as follows;

**Substantial Assurance**      The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.

## 1.5 Key Issues

There are no key issues arising from this review.

## 1.6 Agreed Action

Actions to address the recommendations made in this report are included in the attached Action Plan, which has been agreed with the relevant Managers.

## Control Objectives 2

### Merseyside Recycling and Waste Authority

#### Financial Systems

To gain assurance that the following control objectives are being achieved within an appropriate framework of control:

1. Policies and procedures are in place, current, adequate, approved and are available to staff.
2. Supplier and client responsibilities are being met with regard to Accounts Payable.
3. Supplier and client responsibilities are being met with regard to Income Management and Debt Recovery.
4. Supplier and client responsibilities are being met with regard to Treasury Management.
5. Supplier and client responsibilities are being met with regard to Payroll and Pension Services.

## Findings & Conclusions 3

### Findings

- 3.1 Control Objective:** Policies and procedures are in place, current, adequate, approved and are available to staff –

We established that six out of seven expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:

- 3.1.1 Policy, Procedure and Strategy Review Timetable** A Policy, Procedure and Review Strategy document is in place that contains a list of documents, the expected review cycle and the responsible officer.

It is clear that Policies and Procedures are reviewed as expected for the most part and are of a high standard. However, it was evident that a small number of documents had exceeded their review date (although in some cases we were informed that the review date was only a proposed date). The review timetable also contained a small amount of outdated information. We were informed during the review that the document would be updated accordingly.

The risk is that staff refer to policies and procedures that could contain outdated information that does not comply with current legislation or reflect current practice.

**Recommendation** *The policy and procedures review document should be amended and kept up-to-date and all policies and procedures should be reviewed in line with the amended review timetable.*

- 3.2 Control Objective:** Supplier and client responsibilities are being met with regard to Accounts Payable –

We established that 11 out of 14 expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of three controls were identified, and recommendations have been made to enhance the control environment in these areas, as detailed below:

- 3.2.1 Supplier Payment Terms** Invoices should be processed by MRWA and the Council on a timely basis to ensure that supplier's payment terms are met.

Sample testing indicated that for four from twenty-five invoices examined that the supplier's payment terms were not met. We were informed that on three occasions this had occurred because the original invoice had not been received and replacement invoices had not been marked as duplicate by MRWA. On one other occasion the invoice was sent late by MRWA.

The risk in this case is that MRWA have made a commitment to make payment in a timely manner and to be seen as supportive to businesses and suppliers and this is not always the case.

**Recommendation** *If an invoice is a duplicate invoice it should be clearly marked as such to avoid being identified as a late payment.*

### 3.2.2 Credit Card Reconciliation

An appropriate segregation of duties should be in place with regard to credit card usage.

Whilst there is an appropriate segregation of duties in place with regard to the purchasing of goods and services, the cardholder is not involved in the monthly reconciliation process.

The risk here is that the card holder may not be aware of all purchases made on their registered credit card, increasing the risk of error or fraud.

**Recommendation** *Credit card holders should check the final monthly reconciliation as a true record of purchases and certify the reconciliation sheet accordingly.*

### 3.3 Control Objective: Supplier and client responsibilities are being met with regard to Income Management and Debt Recovery –

We established that all expected controls under review were in place and working effectively. No recommendations have been made.

### 3.4 Control Objective: Supplier and client responsibilities are being met with regard to Treasury Management –

We established that four out of eight expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of four controls were identified, and recommendations have been made to enhance the control environment in these areas, as detailed below:

#### 3.4.1 Bank Accounts

The SLA indicates that the Council will provide appropriate banking facilities to be available for MRWA.

Whilst this control is in place and working effectively, there are currently two bank accounts in place in the name of MRWA that have not been used for some time. The Council's Treasury Management Section has indicated that these bank accounts are no longer required.

**Recommendation** *The two unused bank accounts in the name of MRWA should be closed by the Council's Treasury Management Section.*

#### 3.4.2 Interest Calculation Report

The Council provide MRWA with an interest calculation report that indicates the results of investments made by the Council on their behalf.

Whilst it is clear that this report is produced and presented to MRWA on a regular basis, from discussions with MRWA representatives it was indicated that clarification is required on the information contained within the document.

**Recommendation** *The format for the interest calculation report should be reviewed and agreed by both parties.*

### 3.4.3 Annual Cash Flow Summaries

The SLA indicates that MRWA are, "To provide, by 30<sup>th</sup> April, a monthly profiled summary of all cash flow activity for the previous financial year (i.e. the one ended on 31 March immediately preceding)".

A revised mechanism is now in place and the Treasury Management Section produces the retrospective cash flow activity information. This change is not reflected in the current SLA.

The SLA indicates that MRWA are, "To provide, on a monthly basis, a monthly profiled forecast of all cash flow activity for the current and forthcoming financial year". Although a forecast of contract payments is presented to the Council, a full forecast cash flow is not currently in place.

**Recommendations** *The SLA should be amended to indicate that the Council now produces the historical cash flow statement.*

*A monthly cash flow forecast should be produced by MRWA and this should be updated to reflect any changes in anticipated cash flows.*

### 3.4.4 Schedule For Contract Payments

The SLA states that MRWA will provide on an ongoing basis a detailed cash flow forecast for any individual item of income/expenditure in excess of £150,000.

It has not always been the case that this information has been sent to the Council on a timely basis, and at times the final figures for the monthly contract payment have displayed a considerable variance to the initial cash flow forecast produced by MRWA.

The risk is that money is kept on hold for an excessive number of days rather than being invested elsewhere and gaining interest.

**Recommendation** *MRWA to inform the Council's Treasury Manager of any amendments to the initial contract payments figure and date, by email, no later than the 13<sup>th</sup> of each month.*

### 3.5 Control Objective: Supplier and client responsibilities are being met with regard to Payroll and Pension Services –

We established that six out of seven expected controls under review were in place and working effectively.

However, weaknesses in the design or operation of one control was identified, and a recommendation has been made to enhance the control environment in this area, as detailed below:

**3.5.1 Payslip Advices**

The SLA states that the Council will issue payslip advices on a timely basis.

We were informed that on occasion staff only receive their payslip after the actual payday. Staff do have access to online payslips but not all MRWA staff have opted to use this facility even though a regular reminder is issued to staff.

The risk is that if staff only receive a pay advice after payday any errors that may have occurred in the production of the monthly payroll will not be corrected on a timely basis.

***Recommendation***     ***MRWA staff should be advised to use the online option to review payslip advices on a timely basis.***

## Conclusions

Internal Audit contribute to the overall governance of the Council by providing an opinion on how effectively risks are being managed and the adequacy and effectiveness of internal control in relations to the areas under review. Our opinion is based on the findings of the work performed as described above.

Our overall opinion, following this review is as follows;

### High Assurance

All expected controls are in place and being applied consistently and effectively and there is a sound system of control designed to ensure the achievement of the service or system's business objectives.

### Substantial Assurance



The majority of expected controls are in place but there is some inconsistency in their application. Whilst there is basically a sound system of controls, there may be weaknesses in the design and/or operation of these and recommendations have been made to enhance the control environment further.

### Limited Assurance

A number of expected controls do not exist or are not applied consistently or effectively. There are weaknesses in the design or operation of controls that could impact upon achievement of the service or system's business objectives and these may have resulted in the emergence of key issues.

### Minimal Assurance

A significant number of expected controls are not in place or there are significant weaknesses in the control system that may put the service or system's business objectives at risk. A number of recommendations have been made and / or key issues identified.

Actions to address the recommendations made during this review are included in the Action Plan attached at Section 4 of this Report.

**Merseyside Recycling and Waste Authority**  
**Financial Systems****Action Plan 4**

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
1	The policy and procedures review document should be amended and kept up-to-date and all policies and procedures should be reviewed in line with the amended review timetable.	Amanda Valentine	Initial review December 2013 then continuous review.	
2	If an invoice is a duplicate invoice it should be clearly marked as such to avoid being identified as a late payment.	Amanda Valentine	Corporate Services to ensure checks are in place and duplicates marked from February 2014.	
3	Credit card holders should check the final monthly reconciliation as a true record of purchases and certify the reconciliation sheet accordingly.	Amanda Valentine	Credit cards reconciliation to be reviewed each month. December 2013.	
4	The two unused bank accounts in the name of MRWA should be closed by the Council's Treasury Management Section.	Sarah Johnston	Treasury Management to close down the two unused bank accounts. 31 <sup>st</sup> December 2013.	Closed in November 2013, evidenced by statement of closure dated 6 November 2013.

REC NO.	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION AND PROPOSED DATE OF IMPLEMENTATION	ACTUAL DATE OF IMPLEMENTATION
5	The format for the interest calculation report should be reviewed and agreed by both parties.	Peter Bedson / Sarah Johnston	The format for the interest calculation report to be reviewed and agreed by both parties. 31 <sup>st</sup> December 2013.	
6	The SLA should be amended to indicate that the Council now produces the historical cash flow statement.	Jon Ridgeon / Peter Williams	SLA to be updated for 2014-15.	
7	A monthly cash flow forecast should be produced by MRWA and this should be updated to reflect any changes in anticipated cash flows.	Peter Bedson / Neil Spencer	Consultation to take place with Treasury Management as to the requirements of the cash flow statement. Expected completion date March 2014.	
8	MRWA to inform the Councils Treasury Manager of any amendments to the initial contract payments figure and date by email, no later than the 13 <sup>th</sup> of each month.	Neil Spencer	Implemented during audit.	August 2013.
9	MRWA staff should be advised to use the online option to review payslip advices on a timely basis.	Paula Pocock	Regular updates already provided – ongoing information to be provided.	With immediate effect.