

Oxford City Council

Trade Waste

FINAL

Internal Audit Report
2011/2012

January 2012



Contents



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Distribution List

For action	Lynne Barker Natalie Desenclos	Business Partner - Finance Trade Waste Officer
For information	Graham Bourton Nigel Kennedy Tim Sadler Jackie Yates Peter Sloman	Head of Service (Direct Services) Head of Finance Corporate Director (City Services) Corporate Director (Finance and Efficiency) Chief Executive

1. Executive summary

<p>Report classification</p> <p style="text-align: center;"></p> <p>Medium risk (14 points)</p>	<p>Trend</p> <p style="text-align: center;"></p> <p>Performance in this area has improved since prior year</p>	<p>Total number of findings</p> <table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>2</td> <td>2</td> <td>1</td> </tr> <tr> <td>Open prior year findings</td> <td>0</td> <td>0</td> <td>1</td> <td>3</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>3</td> <td>5</td> <td>1</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	0	0	0	Operating effectiveness	0	0	2	2	1	Open prior year findings	0	0	1	3	0	Total	0	0	3	5	1
	Critical	High	Medium	Low	Advisory																											
Control design	0	0	0	0	0																											
Operating effectiveness	0	0	2	2	1																											
Open prior year findings	0	0	1	3	0																											
Total	0	0	3	5	1																											

Summary of findings:

In prior year, we issued a limited assurance opinion on the Councils Trade Waste controls. Whilst some agreed actions have been implemented, 4 open prior year findings have been re-raised in this report.

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We identified no control design issues in year. This implies that the Council has controls in place which effectively address the risks associated with Trade Waste income. That said, a number of operating effectiveness points have been raised in the following areas:

- No reconciliations between Whitespace and the Council's General Ledger had been performed at the time of audit. This provides limited comfort that all income has been accounted for completely and accurately;
- The Council has high levels of Trade Waste aged debt. Testing identified that there has been issues with processing invoices to customers and a number of exceptions were noted with effective collection and credit balances; and
- Supporting documentation is not always in place to support Trade Waste transactions. The required documentation for new accounts is not consistently obtained before setting up a new contract and no procedure notes are in place for the function.

Responsibility for Trade Waste is shared across Direct Services and finance. Whilst Direct Services are responsible for administering and contracting the service, all invoice raising and recovery is the responsibility of finance based on the information provided by the service. All issues have been allocated to their responsible department to allow for effective follow up.

2. Background and scope

Background

The Council operates a service for the regular collection of recyclable materials and other waste from businesses. Arrangements for this service are operated through a standardised contract. Services are offered for collection of Trade Bulky Waste and for events on an ad hoc basis and the Council is currently piloting the collection of food waste to customers.

Income is collected for this service which is billed on a quarterly basis. The total net budget for this service for 2011/12 is:

	(£000)
Trade Refuse	1,088
Trade Recycling	145

From April 2010, the Authority began operating Trade Waste facilities using the White Space system. Information from this system is uploaded into the Agresso (General Ledger) system each quarter.

Scope and limitations of scope

We have reviewed the design and operating effectiveness of key controls in place relating to Trade Waste income during the period 2011/12.

The sub processes and related controls objectives included in the review are:

Sub-process	Control objectives
Setting up Trade Waste accounts	Trade Waste accounts are only raised on receipt of properly authorised and complete request documentation
Processing of invoices and refunds	Invoices are raised in a timely, complete and accurate fashion. Only valid and accurate credit notes are raised
Income collection	Debt collection, recovery and write-off procedures are sufficient to ensure that delay in receiving payments and loss of income is minimised.

Accounting for Trade Waste	The correct information on Trade Waste income is fed into the Authority's General Ledger system
Access to Whitespace	The White Space system is protected against unauthorised access/ processing and is secure against loss or damage of data
Follow up of prior year	Prior year issues have been implemented in line with agreed action plans

Limitations of Scope

The scope of our work has been limited to those areas outlined above. This review has not considered the IT controls around the Whitespace system.

3. Detailed current year findings

1. Customer Invoicing – Operating Effectiveness - Direct Services

Finding

Following the set up of new customers on Whitespace, invoices are raised for accounts within the Agresso (General Ledger) system. In 3/25 new customers tested, the customer had not been invoiced to date (the earliest being set up in April 2011) It was established that this was due to a Whitespace error which meant that some accounts have not been flagged for billing.

Risks

Revenue from Trade Waste may not be recovered.

Action plan

Finding rating



Low

128

Agreed action

The upgrade to Fleetplan v7.5 will allow exception reports showing where accounts have not been flagged for billing. Until this system is implemented, an additional review of the invoice listing will be performed to ensure that all accounts have been flagged.


Responsible person / title

Phil Dunsdon


Target date:

Upgrade to be performed in January 2012

2. Reconciliations – Operating Effectiveness - Finance

Finding		
Reconciliations between White Space and Agresso are performed on a quarterly basis to ensure the correct transfer of information between the systems. At the time of the audit no reconciliation had been prepared for the first 2 quarters of 2011/12. A reconciliation was prepared for audit with but no supporting documentation was provided with this document.		
Risks		
Trade waste income may be accounted for inaccurately. Comfort cannot be had over the operation of this key control for the entire year.		
Action plan		
Finding rating	Agreed action	Responsible person / title
129  Low	The reconciliation process was not handed over during staff restructures. Regular reconciliations will be performed going forward and the process will improve with the upgrade of Fleetplan to v7.5.	Lyn Barker Target date: With Immediate Effect


3. Aged Debt Position – Operating Effectiveness - Finance

Finding		
At the date of audit, the Council had £268k of Trade Waste debt. £138k (52%) of this debt is over 90 days old, with £89k raised over 1 year ago. In 3/25 collection cases tested, no action had been taken to recover income for over 2 months. In 1 case, the debt had been flagged for a credit note in 2007 but had not yet been raised.		
Risks		
Debts may not be recovered leading to an increased risk that write offs may occur.		
Action plan		
Finding rating	Agreed action	Responsible person / title
 Medium 130	Responsibility for debt collection transferred to finance for Trade waste in March 2011. Since this audit has been completed we have received instructions for various actions relating to aged debt from Trade Waste. This should reduce the balance considerable. Progress against this will be monitored on a regular basis and target for a reduction set internally.	Pete Johnson Target date: With Immediate Effect

4. Access to Whitespace – Operating Effectiveness – Direct Services


Finding		
1/20 Whitespace users tested was no longer employed by the Council. The access for this individual had not been disabled.		
Risks		
Users may have inappropriate access to the Council's systems.		
Action plan		
Finding rating	Agreed action	Responsible person / title
1-31 Advisory	All users access is automatically deleted on Whitespace following 20 consecutive days of inactivity. On that basis the risk of misappropriation is minimised.	-
		Target date:
		-

5. New Accounts – Operating Effectiveness – Direct Services


<p>Finding Council procedures state that new Trade Waste accounts can be set up following receipt of a business rates notification and confirmation from Companies House evidencing the existence of the organization. All new sole trade accounts should be supported by a Council Tax notification. The following issues were noted when testing 20 new accounts set up in year:</p> <ul style="list-style-type: none"> • Companies House checks had not been performed for 5/20 accounts; • 2 sole trader accounts were not supported by a Council Tax notification. A business rates account had not been identified for 1 additional business account • In 2/20 accounts tested, no contract was in place for the Trade Waste arrangement 		
<p>Risks Customers may not exist or operate as a going concern, increasing the risk that income will not be collected. If no contract is in place, the position of the customer and the Council is not clearer defined.</p>		
<p>Action plan</p>		
<p>Finding rating</p> <p> Medium</p>	<p>Agreed action</p> <p>There is now a new permanent member of staff within Direct Services responsible for processing applications. This will improve compliance with policies and procedures in this area. Checks will be performed on applications each month to verify compliance.</p>	<p>Responsible person / title</p> <p>Phil Dundson</p> <p>Target date:</p> <p>With Immediate Effect</p>

4. Prior year findings


1. Excess Collection - Direct Services

Issue Noted	
Requests are made on a daily basis for excess collections. All excess collection invoices should be authorised and recorded on both the Trade Waste database and the Agresso invoice run. The following issues were noted when testing 25 invoices raised in year: <ul style="list-style-type: none"> In 16/25 cases, jobs had been completed but had not been flagged for invoicing on Whitespace. Some invoices dated back to April 2010. In 1/25 cases, the job completed could not be traced to a job ticket. In 1/25 cases, 2 job tickets had been raised for a job but only 1 invoiced. 	
Recommendation	
Documentation should be retained for all excess collection invoices raised. Investigations should be undertaken to establish why Whitespace has not been invoicing excess collection runs.	
Original agreed action	
Documentation standards and retention will be reviewed as part of the process of transferring responsibility for raising one-off invoices to the Finance team.	
Status update	
Job tickets are now signed off on round sheets to evidence they have been processed. Issues have been noted during current year testing with flagging invoices on Whitespace.	
Action plan	
Finding rating	Responsible person / title
 High	-
Recommendation addressed in part. See issue #1 above for revised current year recommendation.	Revised target date:
	-


2. Unmatched Payments – Direct Services

Issue Noted		
It was noted during audit that there is currently £140k of unmatched payments for Trade Waste accounts being held on customer accounts. These relate to payments where the customer cannot be identified or has been applied incorrectly.		
Recommendation		
A cleansing exercise should be performed to identify the correct accounts for all unmatched payments. Going forward, a Trade Waste suspense account should be put in place and all entries reviewed on a monthly basis to ensure that all payments are correctly applied.		
Original agreed action		
Resources will be allocated to complete the clearance of unallocated payments. Current payment allocation procedures and documentation will be reviewed to improve initial allocation. The need for a suspense account will be reviewed following the completion of this process.		
Status update		
The unallocated payments are at a reduced level of £38k. Open prior year issue. Finding rating reduced to reflect movement in balance. To be used in calculation of overall risk rating.		
1		
2		
Action plan		
Finding rating	Revised action	Responsible person / title
 Low	Reports showing unmatched balances will be sent to relevant Heads of Service on a weekly basis to review and clear transactions.	Pete Johnson
	Revised target date:	
		With Immediate Effect


3. Account Authorisation - Direct Services

Issue Noted		
There is no process in place for approving new Trade Waste contracts. This was also raised in the prior year.		
Recommendation		
Management should ensure that a process of authorisation is implemented for new Trade Waste debtors.		
Original agreed action		
A new accounts procedure will be developed.		
Status update		
There is no formalised and documented process in place for approving new Trade Waste contacts. This has to be introduced from October 2011. On prior year issue. Finding rating reduced to reflect that process has now been introduced.		
Action plan		
Finding rating	Revised action	Responsible person / title
 Low	A policy for approval has been introduced from October 2011.	Phil Dundson
	Revised target date:	
		With Immediate Effect


4. Debt Recovery Process - Finance

Issue Noted		
We recognise that efforts are now being undertaken to chase aged Trade Waste debt, although historically there had been no formal timetable in place for the chasing of unpaid debtors, nor any documentation retained to evidence actions taken. While actions have recently been taken to address this for large debtors through documentation within Whitespace of customer responses and actions taken, this process is not yet in place for all debtors.		
Original agreed action		
Responsibility for debt collection has been transferred to the Finance team and considerable progress has been made in reducing the debtor balance. The existing credit control procedure will be updated to improve the documentation of actions taken and responses received.		
Status update		
A timetable is now in place to outline the recovery process for Trade Waste debt.		
Action plan		
Finding rating	Revised action	Responsible person / title
 Medium	Issue addressed. No further action required	n/a
		Revised target date:
		n/a


5. New Accounts – Direct Services

Issue Noted		
Council procedures state that new Trade Waste accounts can be set up following receipt of a Business Rates confirmation and headed letter paper for the organisation. In 4/12 new accounts tested, these procedures were not followed and the Council had obtained Companies House confirmation in lieu of headed letter paper.		
Original agreed action		
The Council's procedure will be amended to require all limited company applications for new accounts to be subject to Business Rates confirmation and verification of the company's details with the Companies House website. The requirement for copy company headed notepaper will be deleted.		
Status update		
A sample of new accounts set up was tested in year. Issues were noted with the retention of the correct information in all cases.		
Action plan		
Finding rating	Revised action	Responsible person / title
 Medium	Recommendation addressed in part. See issue #6 above for revised current year recommendation.	-
		Revised target date:
		-


6. Whitespace Access – Direct Services

Issue Noted	
There is no requirement for users to change their Whitespace password on a periodic basis.	
Original agreed action	
Whitespace does not currently have a facility to automatically require users to change passwords on a periodic basis. Whitespace have confirmed that this is technically feasible and we will work with them to implement it.	
Status update	
The Council has upgraded Whitespace since prior year. All users are now required to change their password on a periodic basis.	
Action plan	
Finding rating	Revised action
∞  Medium	Issue addressed. No further action required
	Responsible person / title
	n/a
	Revised target date:
	n/a


7. Adhoc Invoicing – Direct Services

Issue Noted	
Invoices can be raised on an ad hoc basis for one off collections of waste (e.g. following a university college ball). There is no formal timeline for running these invoices which will be parked until a batch can be processed.	
Original agreed action	
Invoices will be raised on an at least fortnightly basis. Responsibility for raising excess collection and one-off invoices is to be transferred to the Finance team.	
Status update	
Ad-hoc invoices continue to be run on a sporadic basis but our review identified that runs are generated at least monthly. No formal timetable has been implemented. Open prior year issue. To be used in calculation of overall risk rating.	
Action plan	
Finding rating	Revised action
 Low	A formal timetable will be put in place to ensure invoice runs are processed on a monthly basis.
	Responsible person / title
	Phil Dunsdon
	Revised target date:
	With Immediate Effect


8. Whitespace Procedure Notes – Direct Services

Issue Noted	
There are currently no procedure notes in place for the White Space system or Trade Waste process. It is acknowledged that these were in the process of being drawn up at the time of audit.	
Original agreed action	
Procedure notes will be formalised for the White Space system and Trade Waste processes and distributed to all responsible officers. Procedure notes should be reviewed on an annual basis and updated for any changes to systems and processes.	
Status update	
No procedure notes have been produced to date. Open prior year issue. To be used in calculation of overall risk rating.	
Action plan	
Finding rating	Revised action
 Medium	A permanent member of staff has now been employed and charged with producing procedure notes. These will be reviewed as part of the central review of system procedures being undertaken by corporate IT.
	Responsible person / title
	Phil Dunsdon
	Revised target date:
	31 st January 2012


9. Segregation of Duties – Direct Services

Issue Noted		
It was noted during audit that the officer raising Trade Waste invoices often receipts and posts cheques.		
Original agreed action		
Segregation of duties is being reviewed as part of the process of transferring invoicing, credit notes and payment allocation responsibilities to the Finance team.		
Status update		
Segregation of duties is now maintained as responsibility for raising invoices has been transferred to the finance department.		
Action plan		
Finding rating	Revised action	Responsible person / title
 Medium	Issue addressed. No further action required	n/a
	Revised target date:	n/a


10. Invoice Runs – Direct Services

Issue Noted		
Invoices are issued to trade waste customers quarterly in advance. Invoice runs for Q1 and Q2 of 2010/11 were run in May and July respectively and therefore were not run in line with the agreed timetable.		
Original agreed action		
Invoice runs will be performed in line with the agreed timetable.		
Status update		
Invoices for 2011/12 have been run on a timely basis.		
Action plan		
Finding rating	Revised action	Responsible person / title
42 	Issue addressed. No further action required	n/a
Medium		Revised target date:
		n/a

11. Credit Notes – Direct Services/Finance

Issue Noted		
The Authorised Signatories List (ASL) that is in place for Trade Waste credit notes only includes signatory limits up to £99.		
Original agreed action		
The ASL will be amended to include higher signatory limits.		
Status update		
The ASL has now been updated.		
Action plan		
Finding rating	Revised action	Responsible person / title
 Medium	Issue addressed. No further action required	n/a
	Revised target date:	n/a

12. Reconciliations – Finance

Issue Noted		
Reconciliations between White Space and Agresso are performed on a quarterly basis to ensure the correct transfer of information between the systems. These are not signed to evidence review of the process.		
Original agreed action		
The Finance Business Partner will review the monthly reconciliation.		
Status update		
Reconciliations are not signed off per the agreed action.		
Action plan		
Finding rating	Revised action	Responsible person / title
44  Low	See issue #1 above for revised current year recommendation.	-
	Revised target date:	-

Appendix 1. Basis of our classifications

Individual finding ratings

Assessment rationale	
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification		Points
	Low risk	6 points or less
	Medium risk	7– 15 points
	High risk	16– 39 points
	Critical risk	40 points and over

Appendix 1: Terms of Reference

Oxford City Council

Terms of Reference – Trade Waste

To: Lyn Barker, Business Partner- Finance

From: Katherine Bennett, Audit Manager

This review is being undertaken as part of the 2011/12 internal audit plan approved by the Audit and Governance Committee

Background

The Council operates a service for the regular collection of recyclable materials and other waste from businesses. Arrangements for this service are operated through a standardised contract. Services are offered for collection of Trade Bulky Waste and for events on an ad hoc basis and the Council is currently piloting the collection of food waste to customers.

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Scope

We have reviewed the design and operating effectiveness of key controls in place relating to Trade Waste income during the period 2011/12.

The sub processes and related controls objectives included in the review are:

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Accounting for Trade Waste	The correct information on Trade Waste income is fed into the Authority's General Ledger system
Access to Whitespace	The White Space system is protected against unauthorised access/ processing and is secure against loss or damage of data
Follow up of prior year	Prior year issues have been implemented in line with agreed action plans

Limitations of scope

The scope of our work has been limited to those areas outlined above. This review has not considered the IT controls around the Whitespace system.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the Trade Waste process through discussions with key personnel, review of systems documentation and walkthrough tests
- Identify the key risks relating to Trade Waste
- Evaluate the design of the controls in place to address the key risks
- Test the operating effectiveness of the key controls

Internal audit team

Name	Role
Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Katherine Bennett	Audit Manager
Charlotte Bilsland	Audit Team Leader
Kaj Tank	Team Member

Key contacts – Oxford City Council

Name	Title	Role	Responsibilities
Lyn Barker	Business Partner - Finance	Audit Sponsor	Review and approve terms of reference
Natalie Desenclos	Trade Waste Officer	Key contact	Review draft report
Graham Bourton	Head of Service – Direct Servies	Head of Service	Review final report Review and meet to discuss issues arising and develop management responses and action plan

Other Roles and Responsibilities – Oxford City Council

Name	Title	Responsibilities
Nigel Kennedy	Head of Finance	Receive draft and final report
Tim Sadler	Corporate Director (City Services)	Receive final report
Jackie Yates	Corporate Director (Finance and Efficiency)	Receive final report
Peter Sloman	Chief Executive	

Timetable

Fieldwork start	03/10/2011 (Initial meeting 10am to be attended by LB and ND)
Fieldwork completed	11/10/2011
Draft report to client	25/10/2011
Response from client	08/11/2011
Final report to client	15/11/2011

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation

Appendix 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Trade Waste subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. 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 relating to the Trade Waste review is for the 2011/12 year. 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; 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 shall 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.

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