

# Final Internal Audit Report

## South London Waste Partnership (SLWP): Income Collection and Payment of Funds

October 2023

Distribution: Corporate Director of Sustainable Communities, Regeneration and Economic Recovery  
 Interim Director of Sustainable Communities  
 Head of Environment Services and Sustainable Neighbourhoods  
 Interim Head of Environmental Services & Sustainable Neighbourhoods  
 Finance Manager  
 Partnership Director  
 Principal Accountant  
 Corporate Director Resources and S151 Officer (Final only)  
 Director of Finance

| Assurance Level   | Issues Identified |   |
|-------------------|-------------------|---|
| Limited Assurance | Priority 1        | 2 |
|                   | Priority 2        | 0 |
|                   | Priority 3        | 0 |

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This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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**Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.**

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## **1. Introduction**

- 1.1. Since 2003, London Borough of Croydon (Council) has been part of the South London Waste Partnership (SLWP), which pools waste services for four London boroughs, namely: Croydon, Sutton, Merton, and Kingston.
- 1.2. The SWLP intends to reduce costs and improve the quality of resident services across the boroughs it serves. The specific service objectives of the SWLP are laid out in the 'Inter-Authority Agreement' between Croydon and the other three boroughs. In March 2017, the SWLP signed an eight-year contract with a third-party contractor, Veolia, covering waste collection and a variety of other waste-related services across the four SLWP boroughs.
- 1.3. Croydon, as the largest member of SWLP, had several procurement responsibilities on behalf of the partnership. The Council was responsible for processing and paying the waste management invoices incurred by the SLWP, and recharged the costs incurred to the remaining authorities under the terms set out in the Inter-Authority Agreement. In addition, some overhead staffing costs were partially re-charged to other authorities. The income collection and payment of funds were the focus of this internal audit.
- 1.4. Within Croydon, several departments and teams are involved in the management of and implementation of waste services as part of the partnership. These include Environmental and Regeneration (which is responsible for overseeing waste management, recycling and environmental initiatives within the Council); Waste Management (responsible for day-to-day-operations of waste collection); Environmental Services (responsible for handling various environmental aspects, including waste management, and enforcement of waste regulations), and Recycling and Education (responsible for promoting recycling initiatives and so forth).
- 1.5. Internal Audit last conducted a review of this area in June 2022 (SLWP-Income Collection and Payment of Funds). This raised two priority one recommendations around payment of commercial waste invoices and backlog of unpaid recharges from other Councils. During this subsequent review these were found to still be unresolved and have been raised again as recurring findings. A priority two finding that the SLWP recharge for staffing did not reflect the real cost to Croydon identified in the prior review, based on this subsequent review, was noted to be resolved.
- 1.6. Our review and testing were performed remotely, and we were able to obtain all relevant documents required to complete the review.
- 1.7. The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

2.1. The key issues identified are as below:

### Priority 1 Issues

Invoices were raised on behalf of the Council by Veolia, meaning that the invoice was presented on Croydon head paper and contained the Croydon VAT number, so in effect the Council was paying itself VAT. Also, only one supplier was set up on the Accounts Payable system for Veolia. As a consequence, there were several unpaid invoices relating to the service. This issue was also raised in 2021/22. **(Issue 1)**

Review of the Customer Statements issued to the Royal Borough of Kingston upon Thames and London Boroughs of Merton and Sutton (on 1 November 2022), found that a total of £5,656,743.46 in recharges remained outstanding. **(Issue 3)**

**3. Actions and Key Findings/Rationale**

**Control Area 1: Contractual and Organisational Requirements**

| Priority | Action Proposed by Management   | Detailed Finding/Rationale - Issue 1  |
|----------|---|---|
| 1        | <p>In order to mitigate the risk of the suspension of the internal Commercial waste service it has been agreed as an interim position for Croydon waste services to pay the outstanding dept through the Contract payment mechanism and to recharge the relevant council departments.</p> <p>The processing of VAT Invoices remains an outstanding matter to be resolved between Finance and central government VAT department.</p> | <p><b>Expected Control</b></p> <p>Veolia act as agents for the Council) in delivery of the commercial waste service (together with the three other boroughs in the SLWP). As a local authority, the collection of commercial waste is classified as ‘non-business’ for VAT purposes and customers are not charged VAT. This makes the service more competitive as some businesses may not be VAT registered.</p> <p><b>Issue/Finding</b></p> <p>Veolia are responsible for all aspects of the commercial waste service, including raising invoices on behalf of the Council and collection of debt. Since June 2021, there has been an ongoing issue regarding the payment of invoices for the commercial waste services provided to the Council. The Council’s debt for the commercial waste services, as of March 2023, was £62,909.97. This showed an improvement since the last audit review in June 2022 as this figure was in excess of £160k.</p> <p>Management indicated they were aware of this issue and were still working to resolve it.</p> <p>The issue of not paying the invoices was due to the invoices being raised on behalf of the Council by Veolia, meaning that the invoices were presented on Croydon head paper and contained the Croydon VAT number. This had caused issues in processing as:</p> <ul style="list-style-type: none"> <li>• The VAT number quoted on the invoices was the Council’s own VAT number, so in effect the Council was paying itself VAT; and</li> </ul> |

|   |                 |   |
|---|-----------------|---|
|   |                 | <ul style="list-style-type: none"> <li>Only one supplier was set up on the Accounts Payable system for Veolia. As the invoices are issued by Veolia in their capacity as agents and not in their capacity as contractors, there should be different suppliers set up to differentiate these roles.</li> </ul> |
| <b>Responsible Officer</b>                                  | <b>Deadline</b> | <b>Risk</b>   |
| Head of Environment Services and Sustainable Neighbourhoods | Oct 2023        | There is a risk that if the invoices remain unpaid, the Council could have the commercial waste service withdrawn and could face legal action by Veolia to recover the monies owed. In addition, there is a risk of non-compliance with VAT rules which may result in financial penalties for the Council.    |

### Control Area 3: Recharges to Other Boroughs

| Priority | Action Proposed by Management   | Detailed Finding/Rationale - Issue 2   |
|----------|---|--|
| 1        | <p>This matter has been raised through the SLWP Senior Management Group (SMG) which is made up of the Environment Directors and SLWP Partnership Director.</p> <p>Agreement has been reached as follows.</p> <p>DRAFT invoice to be shared with SLWP Boroughs confirming amount to be paid for each relevant service. (2-week approval).</p> <p>Once all SLWP Boroughs has confirmed their agreement, Invoice to be issued by supplier to LB Croydon.</p> <p>All Boroughs to have annual PO covering each workstream for Croydon to issue individual invoice.</p> <p>All outstanding balances to be cleared within 30 days. This is monitored / tracked by Croydon Waste services and each borough sent itemised account summary of outstanding payments.</p> | <p><b>Expected Control</b></p> <p>Under the recharging arrangement set out in the Inter-Authority Agreement, the Council pays invoices received from contractors on behalf of the SLWP and recharges the other partner authorities share of costs to the respective boroughs. In order to minimise financing costs while awaiting partner authorities to settle their debts and to maximise cash flow, invoices not paid promptly are escalated.</p> <p><b>Issue/Finding</b></p> <p>An examination of customer statements for three partner authorities for the 29 March 2023 found that the debit balances were high. The debit balances as of 29 March 2023 were £8,773,221.11 (£965,341 over 30 days). The outstanding balances from the respective partner Boroughs were as follows:</p> <p>Merton - £2,905,238.56 (£530,108 over 30 days)<br/> Sutton - £3,629,587.61 (£235,314 over 30 days)<br/> Kingston - £2,238,394.94 (£199,919 over 30 days)</p> <p>It was established that partner authorities are given 30 days to pay recharge invoices, which means that interest cost of £44,597 (using the PWLB short term rate of 6.1% as at 23 August 2023) is being incurred monthly by the Council on financing this debt.</p> <p><b>Risk</b></p> <p>Where large unpaid balances build up, there is a financial risk to the Council. If recharge invoices remain unpaid, the Council could incur financial loss. Even if recharge invoices are eventually paid, the Council could face cashflow difficulties in the intermediate period. The Council also forgoes bank interest on the receivables or may be unable to use that cash for investment purposes, incurring financial loss. This is particularly significant given the Council's ongoing financial difficulties, having recently exited a Section 114 order and the high interest rates being experienced in the UK.</p> |

|   | This is reviewed at the SLWP Finance Meeting and updated quarterly at SMG |  |
|---|---|--|
| Responsible Officer   | Deadline  |  |
| Head of Environment Services and Sustainable Neighbourhoods | August 2023 (COMPLETED)   |  |



## TERMS OF REFERENCE

### SLWP - Income Collection and Payment of Funds

#### 1 INTRODUCTION

- 1.1 Since 2003, London Borough of Croydon (Council) has been part of the South London Waste Partnership (SLWP), which pools waste services for four London Boroughs: Croydon, Sutton, Merton and Kingston.
- 1.2 The South London Waste Plan (Plan), which was adopted on 14 December 2022, sets out the spatial issues and objectives to be met in waste management for the next 15 years up to 2037. This is a joint development plan document and covers the geographical area of the four boroughs. The Plan is part of the development plan for the Council's local plan programme.
- 1.3 The SLWP Joint Waste Committee, which constitutes Councillors from the four Councils, reviews the performance of transfer, treatment, recycling and disposal services that are procured and managed by the SLWP on behalf of the four Councils.
- 1.4 In Croydon, the Environmental Services team oversee the management of street services as part of the SLWP contracts. Currently there are three contracts in place for waste management which are as follows:
  - Household Reuse and Recycling Centre (HRRC) services – operated by Veolia;
  - Food and green waste services – operated by Bio Collectors, Olleco, Countrystyle Recycling and SUEZ Recycling and Recovery; and
  - Residual waste services – managed by Viridor South London.
- 1.5 The SLWP team is required to produce a budget for consideration by the Joint Waste Committee each year that covers the cost of delivering partnership wide activities and running the partnership team. The annual budget of the partnership for 2022/23 is £1,329,000 with the budgeted cost per borough being £332,250. Per the Revenue Budget and Capital Programme 2022/23, additional income / savings from SLWP Waste Disposal – Energy Recovery Facility is budgeted at £150,000 for 2022/23.
- 1.6 Following significant changes to global recycling material markets since 2018, the value of some recycling materials has decreased significantly. This has some impact on borough budgets (as some of the materials have the potential to generate income depending on the recycling's sale value) and has an impact on the Council's contractors as recycling income is built into the financial models of several of the waste management contracts. This continues to present a risk and the impact of a worsening level of income for recycling will continue to be managed through budget and contract management processes.
- 1.7 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

## 2 OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

## 3 SCOPE





- 3.1 This audit included the following areas (and issues raised):

| Control Areas/Risks                         | Issues Raised        |                        |                     |
|---|----------------------|------------------------|---------------------|
|   | Priority 1<br>(High) | Priority 2<br>(Medium) | Priority 3<br>(Low) |
| Contractual and Organisational Requirements | 1                    | 0                      | 0                   |
| Payment Procedure                           | 0                    | 0                      | 0                   |
| Recharges to Other Boroughs                 | 1                    | 0                      | 0                   |
| Reconciliations and Budget Monitoring       | 0                    | 0                      | 0                   |
| Financial and Management Reporting          | 0                    | 0                      | 0                   |
| <b>Total</b>                                | <b>2</b>             | <b>0</b>               | <b>0</b>            |

**Appendix 2****Definitions for Audit Opinions and Identified Issues**

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

|   |                       |  |
|---|-----------------------|--|
|    | Full Assurance        | There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.  |
|    | Substantial Assurance | While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk. |
|    | Limited Assurance     | There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,   |
|  | No Assurance          | Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.   |

Priorities assigned to identified issues are based on the following criteria:

|                                |   |
|--------------------------------|---|
| <b>Priority 1<br/>(High)</b>   | Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.  |
| <b>Priority 2<br/>(Medium)</b> | Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.  |
| <b>Priority 3<br/>(Low)</b>    | Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area. |

## **Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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.

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.

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