



London Waste and Recycling Board

Final Internal Audit Report

Resource London

March 2017

This report has been prepared on the basis of the limitations set out on page 11.

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1. Executive Summary

1.1. Background

As part of the 2016/17 Internal Audit Plan, we carried out an audit of the London Waste Authority Support Programme - Resource London.

LWARB ran an Efficiencies Programme aimed at London Waste Authorities from 2012 which it estimated would deliver £10 million of savings per year by 2016. A new programme of support, the London Waste Authority Support Programme, is being delivered between 2015 and 2020. This programme has been branded as 'Resource London'. To deliver this programme, LWARB has established a partnership with Waste and Resources Action Programme (WRAP) in London. LWARB's contribution to Resource London is £1.5 million in 2016/17 and further annual budgets of £1.5 million from LWARB will be made available through to 2020 (£7.5 million total). WRAP's contribution to Resource London is £600,000 in 2016/17.

The objectives of the Resource London Programme are set out within the 2016/17 Programme Plan and these are that, by 2020, London will have more consistent and more efficient waste and recycling services that:

- Achieves the Mayor of London's target that London recycles 50% of local authority collected waste by 2020;
- Makes an effective contribution to the Mayor of London's CO2 emissions performance standard; and
- Are able to make a significant contribution towards England achieving its 50% household waste recycling target in 2020.

To achieve these objectives a range of support will be deployed across four focus areas:

- Minimising the amount of waste produced and maximising re-use;
- Increasing and improving the capture of unavoidable food waste;
- Improving the yield and quality of dry recycling; and
- Restricting residual waste.

It was noted during the audit that the last meeting of the LWARB was held on 17th March 2016 and the last meeting of the Resource London Partnership Board was held on 31st October 2016. No further Board meetings have been held due to the change in administration (Mayor of London) and the expiration of member terms in office which has caused the committee memberships to change. New membership of the LWARB has yet to be finalised and therefore we were only able to confirm that Resource London updates, including financial and performance reports, had been reviewed by the LWARB up to March 2016.

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance that LWARB have implemented adequate and effective controls over Resource London in line with the control objectives set out in Section 2.

In summary, the scope covered the areas of policies and procedures; strategic objectives; governance arrangements; partnership agreements; benefit realisation; and budgets. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary Assessment

Our audit of the internal controls operating over Resource London found that whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. Additionally, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Satisfactory	Satisfactory

Management should be aware that our internal audit work was performed according to the Public Sector Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment for Resource London is shown in Section 3.

1.4. Key Findings

We have raised three priority 2 recommendations and one priority 3 recommendation where we believe there is scope for improvement within the control environment. This is set out below:

- The grant funding agreement should be restated each financial year to confirm the agreement between LWARB and WRAP of the partnership funding arrangements. (Priority 2)
- The WRAP Recycling Tracker Survey results should be used to monitor against the proxy indicators in line with the 2016/17 Programme Plan. This should be completed in a timely manner and reported to the Resource London Partnership Board for review and scrutiny. (Priority 2)
- Forecasts for spend against the WRAP grant funding budget should be introduced into the budget tracker to improve the budget monitoring process. (Priority 2)
- The Memorandum of Understanding (MOU) between LWARB and WRAP for the 2016/17 financial year should be formally agreed and finalised. The MOU for future financial years should be formally agreed prior to the start of the agreement. (Priority 3)

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

We have included a summary of management’s response in Section 2 – Observations and Recommendations.

1.6. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the system of control in respect of Resource London, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were developed with reference to the Public Sector Internal Audit Standards, and by an assessment of risks and management controls operating within each area of the scope. The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within the systems, and controls in existence to allow the control objectives to be achieved; and
- Evaluation and testing of controls within the systems.

2.3. Areas Covered

In accordance with our agreed terms of reference, dated October 2016, our work was undertaken to cover the following system control objectives:

- **Policies and Procedures**

All staff act consistently in compliance with agreed policies and procedures and the administration of the London Waste Authority Support Programme ('Resource London') is conducted in an economic, efficient and effective manner.

- **Strategic Objectives**

Resource London is aligned with the LWARB strategic objectives set out in the Business Plan.

- **Governance Arrangements**

There are robust governance arrangements that underpin the delivery of the London Waste Authority Support Programme, including the roles and responsibilities of officers, Board over-sight, transparency and reporting.

- **Partnership Agreements**

Robust partnership agreements are in place with the Waste and Resources Action Programme (WRAP), including the memorandum of understanding, funding agreement, key performance indicators / targets, reporting routines, etc.

- **Benefit Realisation**

There are robust monitoring routines in place, including key milestones and key performance indicators, which enable LWARB to measure the success of the Programme and to enable prompt action to be taken when required.

- **Budgets**

There are effective budgetary control mechanisms in place to ensure that the Programme remains within budget.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies and Procedures			
Strategic Objectives			
Governance Arrangements*			
Partnership Agreements			Recommendation 1 Recommendation 4
Benefit Realisation			Recommendation 2
Budgets			Recommendation 3

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

* Although no specific recommendations have been raised in this scope area, we were only able to confirm that management reports had been reviewed by the Partnership Board in March 2016. Although the Head of Programmes had produced management reports in July 2016 and sent these to Partnership Board members in the absence of regular group meetings, there is no evidence that these have been discussed and therefore we are unable to provide full assurance in this area.

4. Observations and Recommendations

Recommendation 1: Grant Funding Agreement (Priority 2)

<p>Recommendation</p> <p>The grant funding agreement should be restated each financial year to confirm the agreement between LWARB and WRAP of the partnership funding arrangements.</p>
<p>Risk</p> <p>Where there is not an up to date contractual agreement for the funding arrangements of the partnership, there is a risk that disputes could arise which may lead to LWARB not recouping expected funding. This may result in a financial loss to the organisation.</p>
<p>Observation</p> <p>To ensure that there is a formal up to date contractual agreement between LWARB and WRAP, which sets out the funding arrangements of the partnership and the obligations of both parties under the agreement, the grant funding agreement should be restated each financial year.</p> <p>There was a grant funding agreement between LWARB and WRAP which was signed by both parties on 31st March 2015. The signed agreement was for the period of a year from 31st March 2015 to 31st March 2016. The agreement outlined the obligations of both partners and also states that WRAP will make available funding of £750,000 whilst LWARB will fund £1.5million to the project.</p> <p>The agreement has not been restated with the current financial year's funding from both parties. The initial agreement is therefore obsolete as the end date of the agreement was 31st March 2016. Funding of £600,000 from WRAP has been agreed through the approval of the 2016/17 Programme Plan by the Partnership Board, however an updated grant funding agreement has not been formalised.</p>
<p>Responsibility</p> <p>Head of Programmes</p>
<p>Management Response / Deadline</p> <p>The 2016-17 Grant Agreement restatement will be signed at the final Resource London Partnership Board meeting before 31 March 2017. The 2017-18 Grant Agreement restatement will be signed by 31 May 2017 once the WRAP contribution has been agreed.</p>

Recommendation 2: Proxy Indicators (Priority 2)

<p>Recommendation</p> <p>The WRAP Recycling Tracker Survey results should be used to monitor against the proxy indicators in line with the 2016/17 Programme Plan. This should be completed in a timely manner and reported to the Resource London Partnership Board for review and scrutiny.</p>
<p>Risk</p> <p>Where the proxy indicators are not measured, there is a risk that LWARB are unaware of whether the expected benefits of the support programme are being delivered which could result in the programme objectives not being delivered or financial resources being wasted leading to subsequent reputational damage or financial loss.</p>
<p>Observation</p> <p>To ensure that programme progress is monitored regularly and to identify whether expected benefits are being delivered, the proxy indicators should be measured using the results of the WRAP Recycling Tracker Survey.</p> <p>It was confirmed that the Recycling Tracker Survey was completed by WRAP and the results of this survey were presented in a report to LWARB in September 2016. However, at the time of the audit (December 2016), the Head of Programmes confirmed that the results have not been used to measure against the proxy indicators and therefore these have not been reported in line with the 2016/17 Programme Plan.</p>
<p>Responsibility</p> <p>Head of Programmes</p>
<p>Management Response / Deadline</p> <p>The results of the Tracker Survey and the progress against the Resource London Proxy Indicators will be presented to the Resource London Partnership Board at its final 2016-17 board meeting before the 31 March 2017</p>

Recommendation 3: WRAP Budget Forecasts (Priority 2)

<p>Recommendation</p> <p>Forecasts for spend against the WRAP grant funding budget should be introduced into the budget tracker to improve the budget monitoring process.</p>
<p>Risk</p> <p>Where variances against the WRAP budget are not identified in a timely manner, there is a risk that potential underspend/overspend may not be promptly addressed which could result in reputational damage where funds are not utilised or a financial loss where overspend cannot be addressed.</p>
<p>Observation</p> <p>To ensure that potential variances against the WRAP grant funding are identified in a timely manner, forecasts for spend against this budget should be introduced into the budget tracker.</p> <p>The budget tracker monitors the budget for LWARB resources using forecasts, original budget, committed spend and a variance figure. However, this is not the case for WRAP resources. Currently, the only financial information used for monitoring the budget from WRAP is the original budget against the current spend. There are currently no forecasts used for the WRAP budget and this makes it difficult to forecast whether there will be an underspend or overspend against the original budget.</p> <p>The budget remaining is only seen when the actual spend is updated upon receipt of the financial information from WRAP each quarter. The figure currently reported is the remaining budget that is left and does not take into account what may be spent going forward.</p>
<p>Responsibility</p> <p>Head of Programmes</p>
<p>Management Response / Deadline</p> <p>A meeting was held with WRAP's finance team on 12 January to discuss Resource London budgets and forecasting for 2017-18. WRAP budget forecast will be incorporated into the 2017-18 Resource London budget forecast. Budgeting codes have also been more closely aligned to enable budgeting.</p>

Recommendation 4: Memorandum of Understanding (Priority 3)

<p>Recommendation</p> <p>The Memorandum of Understanding (MOU) between LWARB and WRAP for the 2016/17 financial year should be formally agreed and finalised. The MOU for future financial years should be formally agreed prior to the start of the agreement.</p>
<p>Risk</p> <p>Where there is not a formal up to date agreement in place between the partners, there is a risk that inefficiencies or disputes in the delivery of the programme could occur which may result in the programme not being delivered effectively.</p>
<p>Observation</p> <p>To ensure that both LWARB and WRAP are fully aware of how they will work together in partnership to deliver the Resource London Programme, and in order for there to be a formal agreement of the governance, budgeting and delivery arrangements for the partnership, the MOU for the current financial year should be finalised. In future, this should be finalised prior to the start of the agreement.</p> <p>There is a Memorandum of Understanding (MOU) document in place for the partnership between LWARB and WRAP, with the objective of the document to outline how both intend to work together in partnership in order to deliver the programme. The MOU was last amended on 16th November 2015 and was signed by both parties.</p> <p>However, a review of the MOU identified that the duration of the agreed document covers the period 1st April 2015 to 31st March 2016 (although it was noted that the intention of both partners is to be part of a five year programme to 2020). Discussion with the Head of Programmes confirmed that a revised MOU has not been finalised for the current financial year. A draft document has been produced and issued to WRAP in order to obtain formal sign off although, at the time of the audit, this had not been completed.</p> <p>The Head of Programmes confirmed that the reason for the delay in formally agreeing the revised MOU was due to governance restructuring at both WRAP and LWARB.</p>
<p>Responsibility</p> <p>Head of Programmes</p>
<p>Management Response / Deadline</p> <p>Both the MOU and grant agreement for 2016/17 will be signed at the 31 March Resource London Partnership board meeting. The MOU for 2017/18 will also be signed at this meeting. The Grant agreement will be signed by 31 May 2017 once the WRAP contribution has been agreed.</p>

Appendix A - Reporting Definitions

Assurance Gradings

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Significant		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Satisfactory		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and, as such, the grading of 'Significant Assurance' does not imply that there are no risks to the stated objectives.

Recommendation Gradings

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B - Staff Interviewed

The following personnel were consulted:

Antony Buchan	-	Head of Programmes
Adam Leibowitz	-	Governance and Secretariat Officer
Beverly Simonson	-	Local Authority Support Manager

We would like to thank the staff involved for their co-operation during the audit.

Statement of Responsibility

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

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. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all 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. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars LLP

London

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