



# London Waste and Recycling Board

## Draft Internal Audit Annual Report 2015/16

May 2016

This report has been prepared on the basis of the limitations set out on page 9.

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# Introduction

## Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across the London Waste and Recycling Board (LWARB) during the 2015/16 financial year, the service for which is provided by Mazars Public Sector Internal Audit Limited.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011). The PSIAS requirements are that the report must include:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and
- A statement on conformation with the PSIAS and the results of the internal audit quality assurance and improvement programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

It should be noted that LWARB is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. LWARB also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, LWARB is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the organisation's functions and which includes arrangements for the management of risk.

## Overview of Internal Audit Approach

As Internal Audit, our role is to provide an annual assurance statement on the adequacy and effectiveness of LWARB's systems of governance, risk management and internal control.

## Overview of Work Done

The Audit Plan for 2015/16 included a total of four internal audit projects, although an opinion was not provided in respect of Risk Management Workshop due to the nature of the audit, ie audit resource was set aside to support LWARB in refreshing its strategic risk register. We have liaised with senior management throughout the year to ensure that internal audit work undertaken focuses on the high risk areas and, in the light of new and ongoing developments, helps ensure the most appropriate use of our resources.

We generally undertake individual internal audit projects with the overall objective of providing the Board Members, the Chief Operating Officer and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls over a number of management's objectives. Other audit projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible. We also undertake IT audits, probity audits and anti-fraud work. All internal audit work was performed in compliance with the PSIAS.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings; and
- **Key themes identified** during our work in 2015/16.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2015/16.

## Overall Summary

**As illustrated in the table below, we have found a generally sound control environment during the audit year. During the 2015/16 year, all three internal audit projects were rated 'full/substantial assurance', both in terms of the evaluation and testing assessment.**

### Report Ratings

We are pleased to report that we have not issued any 'nil' or 'limited' assurance' opinions in 2015/16. We have, however, raised a number of recommendations where we believe the control environment could be improved. In order to provide a flavour of the audit work completed during 2015/16, we outline below the priority 2 recommendations raised during the course of the year, each of which were accepted by management and have subsequently been followed up to confirm they have been implemented.

#### Core Financial Systems:

Purchase card bank statements should be reviewed and signed on a monthly basis.

The functionality of the finance system should be investigated to determine whether it is possible to:

- report on changes to standing data for suppliers; and
- obtain an audit trail of changes to supplier details.

#### London Waste Authority Support Programme:

Resources should be allocated to the work streams based on actual time spent on the specific element of the support programme. This will appropriately allocate resource costs to the work stream and show a true representation of the effectiveness of the given stream.

Alternatively, fixed resources, such as Resource London staff time, should be removed from the work streams budget and counted as an overhead across the entire programme.

Assurance Gradings	Number of Projects			
	Evaluation		Testing	
Full	2	67%	1	33%
Substantial	1	33%	2	67%
Limited	0	0%	0	0%
Nil	0	0%	0	0%
<b>Sub-Total</b>	<b>3</b>		<b>3</b>	
No Opinion Audits	1		1	
<b>Total</b>	<b>4</b>		<b>4</b>	

### Opinion 2015/16

From the Internal Audit work undertaken in compliance with the PSIAS in 2015/16, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at the London Waste and Recycling Board for the year ended 31 March 2016 accords with proper practice. The assurance can be further broken down between financial and non-financial systems, as follows:



## Key Themes Identified

**As Internal Audit continues to apply a risk based approach, our audit projects assess the governance framework, the risk management process as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, LWARB continues to have a sound control environment and, whilst further remedial action needs to take place in some areas, we have noted that management has already started addressing our most significant findings.**

### Corporate Governance

Whilst no specific audit of Governance was carried out during 2015/16, we have carried out a number audits where governance arrangements were a key aspect, most notably as part of the audit of the London Waste Authority Support Programme and the work we carried in support of refreshing LWARB's strategic risk register (see 'Risk Management' below). Through our delivery of the internal audit plan and attendance at Audit Committee meetings, we are satisfied that the governance framework for the London Waste & Recycling Board has been effective for the year ended 31<sup>st</sup> March 2016.

### Risk Management

Internal Audit were asked to facilitate the review of LWARB's key risks with the aim of refreshing the Strategic Risk Register. As a consequence, a Risk Workshop was held on 10<sup>th</sup> September 2015 attended by members of the Board and senior management. The aim of the risk management workshop was to provide the Board and Audit Committee members with the opportunity to reflect on the risks and challenges facing LWARB, understand the controls / mitigation in place to manage these risks, and agree further action that needs to be taken to both manage the risks and to provide assurance that the risks are being effectively managed. The principle deliverable from the risk workshop was a revised and refreshed strategic risk register.

Based on an internal audit of LWARB's risk management framework carried out as part of the 2014/15 internal audit plan, and the refresh of LWARB's strategic risk register in September 2015, we have concluded that there is reasonable assurance that LWARB's risk management processes are sufficiently formalised and provide information on key risks and issues relating to specific areas and LWARB as a whole. We found there are processes for identification, recording, and reporting risks, controls, and to help identify action plans to mitigate risks to an acceptable level.

### Performance of Internal Audit

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to LWARB. The table below shows the actual and targets for each indicator for the period:

Performance Measure	Target	Actual
Percentage of Internal Audit plan completed	100%	100%
Percentage of draft audit reports issued on time	80%	100%
Percentage of responses to the draft report received on time	80%	100%
Percentage of final audit reports issued on time	95%	100%
Percentage of recommendations accepted in 2014/15	90%	100%

## Appendix 1 - Audit Opinions and Recommendations 2015/16

Auditable Area	Evaluation Assessment	Testing Assessment	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Core Financial Systems	Substantial	Substantial	-	2	2	4
Budget Control & Forecasting	Significant	Significant	-	-	-	0
London Waste Authority Support Programme	Significant	Substantial	-	1	-	1
Follow-up of Recommendations	N/A	N/A	-	-	-	0
<b>Total</b>			<b>0</b>	<b>3</b>	<b>2</b>	<b>5</b>

## Appendix 2 - Key to Assurance Levels

### Assurance Gradings

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Level	Symbol	Evaluation Assessment	Testing Assessment
<b>Significant</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		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.
<b>Limited</b>		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.
<b>Nil</b>		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.

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

## 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 Public Sector Internal Audit Limited**

**London**

**May 2016**

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