

# Annual Internal Audit Plan



2016/17

Prepared June 2016

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## 01 Introduction

The purpose of this document is to provide the Audit Committee with the proposed operational internal audit plan for 2016/17 for discussion and approval, including details of the basis on which the plan was prepared.

We have also outlined our approach to internal audit within the appendices, including conducting individual reviews.

## 02 The role of internal audit

The Board of the London Waste and Recycling Board (LWARB) are responsible for ensuring that the organisation has in place proper internal control and management systems. In order to do this, the Board must obtain assurance on the effectiveness of those systems throughout the year, and is required to make a statement on the effectiveness of internal control within its annual report and financial statements.

Internal audit provides the Board, through the Audit Committee, with an independent and objective opinion on governance, risk management and internal control and their effectiveness in achieving the organisation's agreed objectives. Internal audit also has an independent and objective advisory role to help line managers improve governance, risk management and internal control. The work of internal audit, culminating in our annual opinion, forms a part of LWARB's overall assurance framework and assists LWARB in preparing an informed statement on internal control.

Responsibility for a sound system of internal control rests with the Board and work performed by internal audit should not be relied upon to identify all weaknesses which exist or all improvements which may be made. Effective implementation of our recommendations makes an important contribution to the maintenance of reliable systems of internal control and governance.

Internal audit should not be relied upon to identify fraud or irregularity, although our procedures are designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control will not necessarily be an effective safeguard against collusive fraud.

Our work is delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

## 03 Developing the internal audit plan

In preparing the internal audit plan we considered the risks contained within the strategic risk register as well as the work of other assurance providers to the Board such as external audit. We have used our knowledge of LWARB and considered the results of previous internal and external audits, as well as other available documentation such as the aims and challenges set out in LWARB's Business Plan 2015-20.

The LWARB's Strategic Risk Register sets out a number of challenges / risks facing the organisation, together with the mitigating actions you have put in place to manage the risks. We have considered these risks, as part of the planning process, in producing the 2016/17 Internal Audit Plan.

Our plan has been shared and discussed with the management executive team, and their comments are incorporated in the 2016/17 Internal Audit Plan shown at Appendix A.

Our professional judgement has been applied in assessing the level of resource required to carry out the audits identified in the annual internal audit plan. This includes consideration of the complexity of the system, volume and frequency of transactions, sources of assurance and the audit approach to the area under review.

## 04 Annual internal audit plan 2016/17

The annual internal audit plan for 2016/17 is attached at Appendix A1. The level resources required to deliver the internal audit plan is broadly consistent with that for 2015/16.

The plan will be revised and updated during the year as new risks and challenges faced by LWARB come to light. In particular, any changes to the assurance requirements as result of risk management workshop in the autumn and / or the introduction of new Audit Committee members. Any changes to the plan will first be agreed with the Client Officer and Audit Committee.

In Appendix A2 we provide the Internal Audit Charter which sets out what you can expect from your internal audit service and the key performance measures that will be reported on a regular basis.

In Appendix A3 we provide an overview of our typical audit approach and protocol for delivering the service, whilst in Appendix A4 we summarise our level of assurance and opinion definitions.

## Appendix A1 – Annual Internal Audit Plan 2016/17

Audit Area	Risk Description	Days	High Level Scope	Lead Contact(s)
Risk Management Workshop	Risk management arrangements underpin most, if not all, risks.	4	To facilitate a risk management workshop with Board / Audit Committee members and senior management. The objective will be to review the current strategic risk register with view to developing a fresh register that reflects the current risks to LWARB. The aim will also be to provide new Board members with an overview of the risk management process and seek their views on the risks / challenges facing LWARB.	Adam Leibowitz – Governance & Secretariat Officer
Resource London	2. Supported projects do not deliver their intended benefits. 3. Financial failure of existing investments. 6. Failure to meet London's recycling target.	10	In view of the fact that the programme has now been in place for over a year, to provide assurance with regards the systems and controls in place to deliver the Resource London programme in partnership with the Waste & Resource Action Programme (WRAP). The audit scope will include: <ul style="list-style-type: none"> <li>• Partnership working with WRAP</li> <li>• Governance arrangements</li> <li>• Budgeting</li> <li>• Management of the programme, including KPI's, meeting objectives and benefits realisation.</li> </ul>	Antony Buchan – Head of Programmes
Core Financial Systems	3. Lack of available funds to fulfil LWARB's objectives.	6	To provide assurance in respect of the systems of internal control with regards LWARB's core financial systems. We will liaise with LWARB's external auditors to ensure that compliance testing is aligned with their requirements. The audit will include the following systems: <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Accounts Receivable</li> <li>• Accounts Payable</li> </ul>	James Lanman – Head of Finance

Audit Area	Risk Description	Days	High Level Scope	Lead Contact(s)
			<ul style="list-style-type: none"> <li>• General Ledger</li> <li>• Asset Management</li> </ul>	
Follow-up		2	To provide assurance that management have implemented audit recommendations.	Adam Leibowitz – Governance & Secretariat Officer
Audit Management		2		
<b>Total Days</b>		<b>24</b>		

## Appendix A2 – Audit Charter and Performance Measures

The Audit Charter sets out the terms of reference and serves as a basis for the governance of the London Waste and Recycling Board's (LWARB) Internal Audit function. It sets out the purpose, authority and responsibility of the function in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the Audit Committee for final approval.

### Nature and Purpose

The LWARB has developed a risk management framework, overseen by the Chief Operating Officer, which includes:

- Identification of the significant risks in the operations and allocation of a risk owner to each;
- An assessment of how well the significant risks are being managed; and
- Regular reviews by the Corporate Management Team and the Board of the significant risks, including reviews of key risk indicators, governance reports and action plans, and any changes to the risk profile.

A system of internal control is one of the primary means of managing risk and consequently the evaluation of its effectiveness is central to Internal Audit's responsibilities.

The LWARB's system of internal control comprises the policies, procedures and practices, as well as organisational culture that collectively support the LWARB's effective operation in the pursuit of its objectives. The risk management, control and governance processes enable the LWARB to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the Corporate Management Team and Board.

The LWARB needs assurance over the significant business risks set out in the risk management framework. In addition, there are many other stakeholders, both internal and external, requiring assurance on the management of risk and other aspects of the LWARB's business - these including members, regulators etc. There are also many assurance providers. The LWARB has, therefore, developed an assurance framework which sets out the sources of assurance to meet the assurance needs of its stakeholders.

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Internal Audit carries out assurance and consulting activities across all aspects of the LWARB's business, based on a programme agreed with the Audit Committee, and coordinates these activities via the assurance framework. In doing so, Internal Audit works closely with risk owners, service line risk teams, the Corporate Management Team and the Board.

In addition to providing independent assurance to various stakeholders, Internal Audit helps identify areas where the LWARB's existing processes and procedures can be developed to improve the extent with which risks in these areas are managed; and public money is safeguarded and used economically, efficiently and effectively. In carrying out its work, Internal Audit liaises closely with the Corporate Management Team and management in the service lines (including risk teams).

The independent assurance provided by Internal Audit also assists the LWARB to report annually on the effectiveness of the system of internal control included in the Annual Governance Statement.

### **Authority and Access to Records, Assets and Personnel**

Internal Audit has unrestricted right of access to all LWARB records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the LWARB should be set out in the conditions of funding.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the Audit Committee.

Internal Audit is accountable for the safekeeping and confidentiality of any information and assets acquired in the course of its duties and execution of its responsibilities.

Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit would need to discharge their responsibilities.

### **Responsibility**

The Chief Internal Auditor is required to provide an annual opinion to the LWARB and to the Chief Operating Officer, through the Audit Committee, on the adequacy and the effectiveness of the LWARB's risk management, control and governance processes. In order to achieve this, Internal Audit will:

- Coordinate assurance activities with other assurance providers (such as the external auditors and the London Fire Brigade) such that the assurance needs of the LWARB, regulators and other stakeholders are met in the most effective way.
- Evaluate and assess the implications of new or changing systems, products, services, operations and control processes.
- Carry out assurance and consulting activities across all aspects of the LWARB's business based on a risk-based plan agreed with the Audit Committee.
- Provide the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issue periodic reports to the Audit Committee, the Corporate Management Team and the Board summarising results of assurance activities.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the LWARB to aid the prevention and detection of fraud;
- Assist in the investigation of allegations of fraud, bribery and corruption within the LWARB and notifying management and the Audit Committee of the results.
- Assess the adequacy of remedial action to address significant risk and control issues reported to the Audit Committee. Responsibility for remedial action in response to audit findings rests with line management.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by Internal Audit's work. Unless specifically requested and agreed, Internal Audit will not perform substantive testing of underlying transactions.

When carrying out its work, Internal Audit will provide line management with comments and report breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, Internal Audit cannot absolve line management of responsibility for internal controls.

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Internal Audit will support line managers in determining measures to remedy deficiencies in risk management, control and governance processes and compliance to the LWARB's policies and standards and will monitor whether such measures are implemented on a timely basis.

Where appropriate, Internal Audit will undertake assurance or consulting activities for the benefit of the LWARB in organisations wholly owned or controlled by the LWARB (e.g. trading companies, ALMOs etc). Internal Audit may also provide assurance to the LWARB on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

The Audit Committee is responsible for ensuring that Internal Audit is adequately resourced and afforded a sufficiently high standing within the organisation, necessary for its effectiveness.

### Scope of Activities

As highlighted in the previous section, there are inherent limitations in any system of internal control. Internal Audit therefore provides the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the LWARB's governance, risk management and control processes using a systematic and disciplined approach by:

- Assessing and making appropriate recommendations for improving the governance processes, promoting appropriate ethics and values, and ensuring effective performance management and accountability;
- Evaluating the effectiveness and contributing to the improvement of risk management processes; and
- Assisting the LWARB in maintaining effective controls by evaluating their adequacy, effectiveness and efficiency and by promoting continuous improvement.

The scope of Internal Audit's value adding activities includes evaluating risk exposures relating to the LWARB's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

### Reporting

For each engagement, Internal Audit will issue a report to the appropriate senior management and business risk owner, and depending on the nature of the engagement and as agreed in the engagement's Terms of Reference, with a summary to the Corporate Management Team and the Audit Committee.

The UK Public Sector Internal Audit Standards require the Chief Internal Auditor to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Charter is reported to the Corporate Management Team and the Audit Committee. It is then presented to the Board annually for formal approval.
- The annual risk-based plan is compiled by the Chief Internal Auditor taking account of the LWARB's risk management / assurance framework and after input from members of the Corporate Management Team. It is then presented to the Corporate Management Team and Audit Committee annually for noting and comment.
- The internal audit budget is reported to Board and the Audit Committee for approval annually as part of the overall budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Chief Internal Auditor) and the independence of internal audit will be reported annually to the Audit Committee.

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- Performance against the annual risk-based plan and any significant risk exposures and breakdowns, failures or weaknesses of internal control systems arising from internal audit work are reported to the Corporate Management Team and Audit Committee on a quarterly basis.
- Any significant consulting activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.
- Results from the Quality Assurance and Improvement Programme will be reported to both the Corporate Management Team and the Audit Committee.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the Corporate Management Team and the Audit Committee and will be included in the annual Chief Internal Auditor's report. If there is significant non-conformance, this may be included in the Annual Governance Statement.

### Independence

The Chief Internal Auditor has free and unfettered access to the following:

- Chief Operating Officer;
- Head of Finance;
- Chair of the Audit Committee; and
- Any other member of the Corporate Management Team.

The independence of the contracted Chief Internal Auditor is further safeguarded as his annual appraisal is not inappropriately influenced by those subject to internal audit.

To ensure that auditor objectivity is not impaired and that any potential conflicts of interest are appropriately managed, all internal audit staff are required to make an annual personal independence responsibilities declaration via the tailored 'My Compliance Responsibilities' portal which includes personal deadlines for:

- Annual Returns (a regulatory obligation regarding independence, fit and proper status and other matters which everyone in Deloitte must complete);
- Personal Connections (the system for recording the interests in securities and collective investment vehicles held by partners, directors and managers, and their immediate family members); and
- Continuing Professional Development (CPD).

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

### External Auditors

The external auditors fulfil a statutory duty. Effective collaboration between Internal Audit and the external auditors will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will follow up the implementation of internal control issues raised by external audit.

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Internal Audit and external audit meet periodically to:

- Plan the respective internal and external audits;
- Discuss potential issues arising from the external audit; and
- Share the results of significant issues arising from audit work.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All LWARB Policies and Procedures; and
- All relevant legislation.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of CPD is maintained for all staff working on internal audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies to deliver the risk-based plan. Both the Chief Internal Auditor and the PSIA Engagement Manager are required to hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

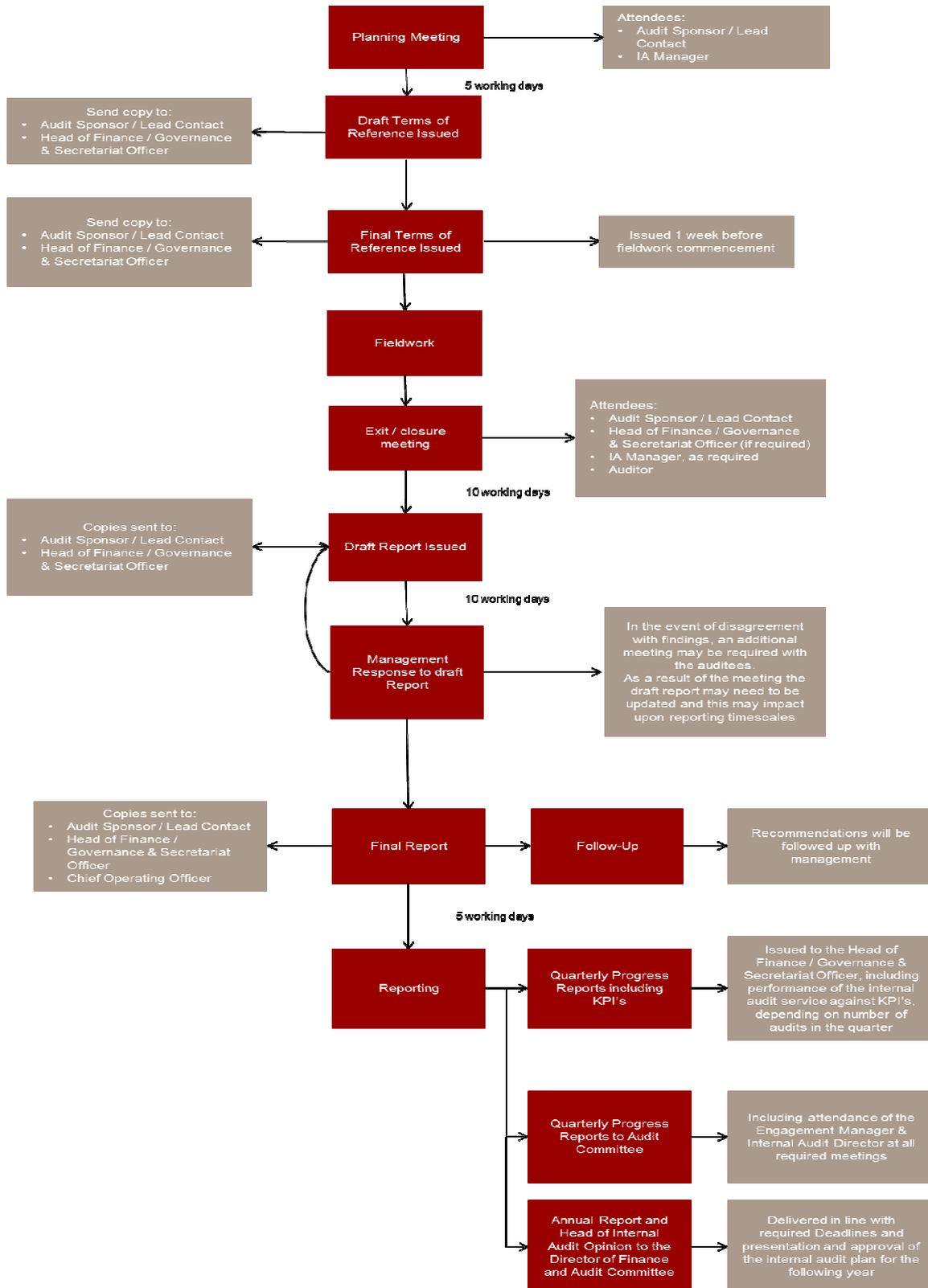
### **Performance Measures**

In seeking to establish a service which is continually improving, we acknowledge it is essential that we agree measures by which Internal Audit should demonstrate both that it is meeting the LWARB's requirements and that it is improving on an annual basis. This will be both through quantifiable factors within the Key Performance Indicators (KPI's) and additionally through a number of measures to further seek to establish the value derived from internal audit.

Below we provide example KPI's against which we regularly report our performance. Should you require additional performance measures, these will be incorporated within our regular reports to management and the Audit Committee.

STANDARD	TARGET
Annual report provided to Audit Committee	As agreed with the Client Officer
Annual Operational and Strategic Plans to Audit Committee	As agreed with the Client Officer
Progress report to Audit Committee	7 working days prior to meeting.
Issue of draft report	Within 10 working days of completion of final exit meeting.
Issue of final report	Within 5 working days of agreement of responses.
Follow-up of priority one recommendations	90% within four months. 100% within six months.
Follow-up of other recommendations	100% within 12 months of date of final report.
Audit Brief to auditee	At least 10 working days prior to commencement of fieldwork.
Customer satisfaction (measured by survey)	85% average of 3 or less
Achievement of annual plan	100%
Proportion of planned days on site	95%
Availability for urgent meetings (maximum time taken)	6 hours.
Availability for non-urgent meetings (maximum time taken)	2 working days.
Response to telephone calls (maximum)	3 hours

## Appendix A3 – Audit Approach



## Appendix A4 – Levels of Assurance & Opinions

### Audit Assessment

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
<b>Full</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.

The assessment gradings provided here 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 'Full' does not imply that there are no risks to the stated control objectives.

### Grading of Recommendations

In order to assist management in using our 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.

## Appendix A5 – Contact Details

### Contact Details

Mark Towler	07710 811056 <a href="mailto:Mark.Towler@mazars.co.uk">Mark.Towler@mazars.co.uk</a>
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## 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**

### **June 2016**

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