



# London Waste and Recycling Board

## Final Internal Audit Report

### Advance London

December 2017

CONFIDENTIAL

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### Status of our reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Limited at the request of the London Waste & Recycling Board 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.

The Report was prepared solely for the use and benefit of the London Waste & Recycling Board and to the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

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

# 1. Executive Summary

## 1.1. Background

As part of the 2017/18 Internal Audit Plan, we carried out an audit of the LWARB Investment and Business Support Programme - Advance London.

LWARB has invested capital in London waste infrastructure and social enterprises through a mixture of fund intermediaries and direct debt or equity. Existing investments remain within LWARB's portfolio, however a new programme of investment has started, branded as "Advance London". This programme is intended to provide support to SMEs who support innovative contributions to London's waste management and wider circular economy. Investment is intended to support SMEs from start-up and growth through to maturity. A business support programme is operated in order to assist SMEs through this path.

LWARB's contribution to Advance London is budgeted at £10,627,000 over the three years of the plan. Additional capital is to be secured through the European Regional Development Fund and private sector partners.

The objectives of the Advance London Programme are set out within the 2017/18 Business Plan and aim to catalyse private sector investment in the Circular Economy with the intentions of:

- Helping reduce and eliminate waste within London through increased resource efficiency and greater recycling of materials;
- Reducing pollutants and contributing to development of a zero carbon city by making better use of the existing assets and infrastructure within the city and leveraging technology innovations;
- Creating jobs through developing business models and revenue streams from waste products and circular technologies, with the potential to add significant GDP to London's economy;
- Helping foster valuable collaboration between key stakeholders within London, including start-ups, SMEs, social enterprises, corporates, advisors, academia and the public sector;
- Raising awareness of the environmental benefits of circular models such as leasing, sharing and durability, to drive behaviour change; and
- Generating financial returns for LWARB to recycle into future programmes.

## 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 Advance London in line with the control objectives set out in Section 2.

In summary, the scope covered the areas of Governance and Management; Planning and Strategy; Investment Decisions; Investment Monitoring; the Legacy Portfolio; and the Business Support Programme. 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 Advance 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 Advance 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 frequency of meetings of the Investment Committee should be sufficient to enable effective oversight of the Investment Strategy, with its Terms of Reference aligned to support this. (Priority 2)
- An induction process should be put in place for new members of the Investment Committee. (Priority 3)
- The Investment Committee should periodically review its effectiveness in order to identify areas for improvement. (Priority 2)
- Performance reporting for Advance London investments should be re-assessed to include performance against social and environmental objectives as well as financial returns. (Priority 2)

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

#### 1.5. **Management Response**

We will include 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 Advance 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 November 2017, our work was undertaken to cover the following system control objectives:

- **Governance and Management**

Robust governance arrangements underpin Advance London and delivery of LWARB's Investment Strategy, including roles and responsibilities, the Investment Committee, direction, oversight, and approval of investment decisions.

- **Planning and Strategy**

The Advance London Investment Strategy is aligned with LWARB's core strategic objectives, as set out in its Business Plan, 2017-2020.

- **Investment Decisions**

The investment programme catalyses private sector engagement in the circular economy.

- **Investment Monitoring**

An effective suite of Key Performance Indicators and management information enables LWARB to measure the success of its investment programme.

Monitoring arrangements, including key milestones and reporting routines, enable prompt and effective action to be taken if required.

- **Closing of Legacy Investment Portfolio**

There are effective and robust procedures in place for closing down the legacy investment programme.

- **Business Support**

Advance London's Business Support programme is effective in supporting businesses in developing circular economy models.

### 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
Governance and Management			<b>Recommendation 1</b> <b>Recommendation 2</b> <b>Recommendation 3</b>
Planning and Strategy			
Investment Decisions			
Investment Monitoring			<b>Recommendation 4</b>
Closing of Legacy Investment Portfolio			<b>Recommendation 1</b>
Business Support			

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

## 4. Observations and Recommendations

### Recommendation 1: Investment Committee Meetings (Priority 2)

<p><b>Recommendation</b></p> <p>The frequency of meetings of the Investment Committee should be sufficient to enable effective oversight of the Investment Strategy.</p> <p>The Board should consider revising the Investment Committee Terms of Reference to set a minimum number of meetings, or a maximum period of time that may elapse between meetings.</p>
<p><b>Risk</b></p> <p>Where the Investment Committee do not meet regularly to oversee the Advance London strategy and achievement against objectives, there is a risk that key issues may not be promptly identified, or sufficient and timely responses agreed.</p>
<p><b>Observation</b></p> <p>The Investment Committee has the delegated authority to monitor existing investments, including the Legacy portfolio, on behalf of the Board, and to review investment proposals and make recommendations to the Board.</p> <p>The Investment Committee Terms of Reference state that meetings will usually take place four times per year, and a maximum of twelve times per year. There is not a strict minimum frequency of meetings, nor any threshold in terms of the amount of time that may elapse between meetings.</p> <p>At the time of the audit in December 2017, the last meeting of the Investment Committee was in March 2017. Additionally, the Investment Committee met only three times during the 2016/17 financial year, with only one meeting being held during the 2017 calendar year.</p> <p>It is noted that the Head of Investment has informal contact with the Committee members to inform them of key developments. Additionally, the Board receive reports which includes the status of the Advance London programme.</p>
<p><b>Responsibility</b></p> <p>Head of Investment</p>
<p><b>Management Response / Deadline</b></p> <p>The level of frequency of the Investment Committee has not been as it should be this year, but this is largely down to a transition in investment strategy from a more intensive direct investment/ portfolio management activity, towards a fund investment programme that requires less intensive monitoring. This has also resulted in a revision to Investment Committee membership to ensure we have the right skills and capacity to effectively govern the programme. A more consistent timetable of meetings will be implemented during 2018, however as stated in the observation section, the IC terms of reference also changed recently, with the Board (which has met) providing oversight of the portfolio and approval of any new investment decisions.</p>

**Recommendation 2: Investment Committee Inductions (Priority 3)**

<p><b>Recommendation</b></p> <p>An induction process should be put in place for new members of the Investment Committee in order to address:</p> <ul style="list-style-type: none"><li>• Roles and responsibilities;</li><li>• Investment strategy; and</li><li>• LWARB's operating environment.</li></ul>
<p><b>Risk</b></p> <p>Where Committee members do not receive effective induction or entry training, there is a risk that they will be unsure of the requirements of their role, or of the Advance London operating environment, which could result in poor decision-making.</p>
<p><b>Observation</b></p> <p>The Investment Committee is composed of a mixture of board members appointed by the Mayor and Local Authorities and "External Members" appointed by the Board.</p> <p>While new board members receive a training day and formal induction, this is an overall induction to Board responsibilities and all of LWARB's projects, without in-depth attention to Advance London or investments. As this induction is for board members, external members will not receive this training.</p>
<p><b>Responsibility</b></p> <p>Governance &amp; Secretariat Officer / Head of Investment</p>
<p><b>Management Response / Deadline</b></p> <p>Given we have 2 new members joining imminently, an induction programme will be provided to those individuals, that focuses more on Advance London's programmes.</p>

**Recommendation 3: Investment Committee Effectiveness (Priority 2)**

<p><b>Recommendation</b></p> <p>The Investment Committee’s effectiveness should be periodically reviewed and corrective actions agreed against any identified areas for development. This could be carried out as part of, or in parallel to, the Board’s effectiveness review.</p>
<p><b>Risk</b></p> <p>Where the effectiveness of Committees and their members is not subject to periodic review, there is a risk that poor decision-making may occur or be perpetuated.</p>
<p><b>Observation</b></p> <p>Investment Committee Members’ skills and effectiveness is not subject to any formal periodic review.</p> <p>Internal Audit’s 2014/15 Corporate Governance report recommended that a periodic effectiveness review be carried out by the Board and its Committees. Discussion with the Governance and Secretariat Officer confirmed that this had not taken place, and was planned for February 2018.</p>
<p><b>Responsibility</b></p> <p>Governance &amp; Secretariat Officer</p>
<p><b>Management Response / Deadline</b></p> <p>As noted above, the Board and Committee effectiveness review is scheduled for early 2018. It is intended that this is repeated every 3 years, which ties in to the cycle of business planning undertaken by LWARB.</p>

**Recommendation 4: Investment Monitoring (Priority 2)**

<p><b>Recommendation</b></p> <p>The Investment Committee should be provided with reports for the Advance London investment programme, which incorporate other objectives alongside portfolio revenues.</p> <p>Provisional details of reporting should be included in investment proposals where possible for consideration prior to investment.</p>
<p><b>Risk</b></p> <p>Where performance monitoring is financially-orientated, there is a risk that LWARB's wider objectives may not be achieved. Well-performing businesses may nonetheless fail to meet Advance London's social and environmental aims.</p>
<p><b>Observation</b></p> <p>The LWARB 2017-2020 business plan lists provisional KPIs of:</p> <ul style="list-style-type: none"> <li>• Reduction in pollutants generated by SMEs;</li> <li>• Reduction in waste sent to landfill;</li> <li>• Creation and safeguarding of jobs; and</li> <li>• Number of new enterprises created.</li> </ul> <p>Investment proposals do not provide provisional details of how effectiveness against these objectives is to be monitored, and reports from investment funds and internal reporting both focus on revenues and value of investments.</p> <p>We were informed that fund managers for Circularity Capital and Sustainable Ventures had expressed a commitment to providing impact reporting, however details of what this might entail were limited.</p> <p>A tender process is in place to develop metrics for the use of LWARB that will allow Key Performance Indicator monitoring for all Circular Economy initiatives.</p>
<p><b>Responsibility</b></p> <p>Head of Investment</p>
<p><b>Management Response / Deadline</b></p> <p>We fully agree that we should monitor non-financial metrics, however at present we are in the early stages of design of the programmes so have not yet begun to consider detailed metric proposals. The tender support will help us to design a framework but bespoke work will be required on each programme but the intention is a full suite of metrics will be used to assess impact. It is difficult to be highly prescriptive with the 2 Funds mentioned above as LWARB is a very small part of the capital structure and therefore has little ability to compel the fund managers to undertake metric assessment. However, we have been successful in persuading them that it can add value to their proposition and both have committed to measuring impact performance – for instance, Circularity Capital has just signed up to the UN’s Sustainable Development Principles and is actively engaging resource to develop their impact capability. LWARB is also planning on producing an Impact Report to measure non-financial performance across all programmes including Advance London.</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
<b>Significant</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Satisfactory</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 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
<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.

## Appendix B - Staff Interviewed

The following personnel were consulted:

Stuart Ferguson	-	Head of Investment
Adam Leibowitz	-	Governance and Secretariat Officer
Natalia Agathou	-	Business Advice Manager

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

## Statement of Responsibility

We take responsibility to Bracknell Forest Council 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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