



London Waste and Recycling Board

Final Internal Audit Report

Human Resources

May 2018

CONFIDENTIAL

Distribution List:

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Key Dates:

Date of fieldwork: April 2018

Date of draft report: 2nd May 2018

Receipt of responses: 11th May 2018

Date of final report: 14th May 2018

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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.

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

1. Executive Summary

1.1. Background

Since its creation in 2008, LWARB’s staffing structure has grown as a reflection of its extended role in promoting the use of less waste and increasing the level of recycling. As a consequence, the administration and support functions of LWARB have had to develop in line with this growth. A key area of this is in respect of human resources and, in particular, whether the organisation’s arrangements continue to be ‘fit for purpose’.

LWARB have recently introduced a new human resources system, which it is hoped, will contribute to the management of its HR function.

1.2. Audit Objective and Scope

This audit aims to provide assurance in respect of the systems and controls in place to manage the HR process following the implementation of the new HR system.

In summary, the scope covered the areas of policies and procedures, roles and responsibilities, document retention, storage and retrieval, review and disposal of documents, and compliance monitoring. 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 LWARB’s Human Resources process 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 Human Resources is shown in Section 3.

1.4. Key Findings

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

- The Employee Handbook should be reviewed and approved by the Audit Committee or the Board. This should include an updated HR Policy with more details of the HR process, including reference to the new HR system. (Priority 2)
- The two Data Protection Policies should be reviewed and merged into one document. The new policy should take into account the requirements set out within the General Data Protection Regulations (GDPR). (Priority 2)

- LWARB should create an Information Asset Register and put a Data Integrity Strategy in place, including a data / information retention policy. In addition, the organisation should consider storing all personal information in one place, such as on the HR system, which is designed for this purpose. Personnel files should be maintained in a consistent manner, with all relevant documents retained for each employee. (Priority 2)
- LWARB should finalise a plan to work towards compliance with GDPR. (Priority 2)

Additionally, we have also raised a number of low (priority 3) recommendations relating to areas of best practice.

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 in respect of the systems and controls in place to manage the HR process following the implementation of the new HR system.

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 March 2018, our work was undertaken in respect of the following scope areas:

- Policies and procedures, including communication to the business.
- Roles and responsibilities.
- Delivering document retention, storage and retrieval requirements.
- Review and disposal of documents.
- Monitoring compliance with policies and procedures and following up any issues.

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.

Controls Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies and Procedures			Recommendation 1 Recommendation 2
Roles and Responsibilities			Recommendation 3 Recommendation 4
Document Retention, Storage and Retrieval			Recommendation 5 Recommendation 6
Document Review and Disposal			Included within Recommendation 5
Compliance Monitoring			Included within Recommendation 5

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: HR Policy and Guidance (Priority 2)

<p>Recommendation</p> <p>The Employee Handbook should be reviewed and approved by the Audit Committee or the Board. This should be evidenced in meeting minutes.</p> <p>The HR Policy should be reviewed and updated. The new policy should include more details regarding the HR process, including roles, responsibilities and reference to the new HR system.</p>
<p>Risk</p> <p>Where policies and procedures are not sufficient to provide effective guidance in respect of HR processes, and are not formally approved, there is a risk that employees may not follow appropriate processes or that controls over key HR systems are insufficient.</p>
<p>Observation</p> <p>An Employee Handbook is provided to all employees at the start of their employment and an up to date version is available on the shared drive. This includes many policies, such as Disciplinary, Grievance and Data Protection, and is reviewed by the organisation’s lawyers when changes are required. This was most recently carried out in April 2017 when changes were made to the pension and shared parental leave sections. However, there was no evidence that it had ever been formally reviewed and approved by the Audit Committee or the Board.</p> <p>The Handbook includes the HR Policy but this was found to be relatively brief. No guidance is included with regard to the new HR system and only minimal guidance is provided regarding new starters: “A new starter form should be completed for every employee and submitted to the Chief Operating Officer. Additionally, the new starter checklist should be completed”.</p>
<p>Responsibility</p> <p>Chief Executive Officer</p>
<p>Management Response / Deadline</p> <p>Agreed. HR policies are to be revised and will be reviewed by the Audit Committee, prior to issuing guidance to all staff on the HR system.</p> <p>Deadline: Autumn 2018</p>

Recommendation 2: Data Protection Policy (Priority 2)

<p>Recommendation</p> <p>The two Data Protection Policies should be reviewed and merged into one document. The new policy should take into account the requirements set out within the new General Data Protection Regulations (GDPR).</p>
<p>Risk</p> <p>Where policies are not sufficient or consistent in providing guidance regarding Data Protection and GDPR, there is a risk that employees may not follow appropriate processes or that control over data is insufficient.</p>
<p>Observation</p> <p>Although the Employee Handbook includes a Data Protection policy, the organisation also has a Data Protection, Information Security & FOI document. This policy is different to the one in the Handbook and is undated. Furthermore, neither document refers to GDPR.</p> <p>Examples of differences include:</p> <ul style="list-style-type: none"> • The Handbook states that personal data must “Not be transferred to people or organisations situated in countries without adequate protection” whereas the Data Protection, Information Security & FOI document states “Not be transferred outside the EEA (European Economic Area, which includes the EU member states as well as Iceland, Liechtenstein, Norway and Switzerland).” • The Data Protection, Information Security & FOI document states that “All records will be kept for a minimum of seven years”. This is not mentioned in the Employee Handbook. • The Employee Handbook states that in relation to the “Transfer of data outside the U.K: It may be necessary to transfer data outside the U.K. Employees consent to all or to any personal data or sensitive personal data relating to them to be transferred outside the EEA to any affiliated body and/or any agent or third party nominated by LWARB and bound by a duty of confidentiality.” This is not mentioned in the Data Protection, Information Security & FOI document.
<p>Responsibility</p> <p>Chief Executive Officer</p>
<p>Management Response / Deadline</p> <p>Policies and Procedures have now been drafted specifically to address GDPR requirements. The Employee Handbook and Data Protection, Information Security and FOI documents will be harmonised and amended to reflect the GDPR.</p> <p>Autumn 2018.</p>

Recommendation 3: Roles and Responsibilities (Priority 3)

Recommendation Roles and responsibilities should be defined and communicated in support of the new HR system used to manage human resource processes.
Risk Where roles and responsibilities of staff involved are not clearly defined and communicated, there is a risk of reduced buy-in and confusion over responsibilities.
Observation We were informed that the CEO is effectively Head of HR and that the Governance and Secretariat Officer is responsible for establishing and maintaining the HR system (YouManage). However, the Governance and Secretariat Officer's job description is dated 2009, includes an old job title and does not refer to HR responsibilities. It was, however, noted that a complete review of job descriptions is currently underway for the whole organisation and that employees work closely together and are therefore aware of each other's roles.
Responsibility Governance & Secretariat Officer / CEO
Management Response / Deadline Agreed. Job Descriptions are currently being reviewed, and that of the Governance and Secretariat Officer will be amended to include the HR role currently undertaken. Autumn 2018

Recommendation 4: Overreliance on the Governance and Secretariat Officer (Priority 3)

<p>Recommendation</p> <p>Although it is acknowledged that LWARB is a small organisation with few employees, consideration should be given to the introduction of additional oversight and sharing of duties within the HR process.</p>
<p>Risk</p> <p>Where there are no spot checks or sharing of duties within the HR process, there is a risk that errors and omissions may not be identified and resolved in a timely manner. In addition, where responsibility for the HR system rests with one person, issues in using the HR system may arise during their absence.</p>
<p>Observation</p> <p>The Governance and Secretariat Officer is responsible for entering all initial details onto YouManage and has HR rights to the new HR system. This is not overseen or checked by another officer. It was noted that the CEO has HR access but does not use it.</p>
<p>Responsibility</p> <p>Governance & Secretariat Officer / CEO</p>
<p>Management Response / Deadline</p> <p>The CEO has complete access to the HR system and uses it fully for his management functions. He does not however use it for inputting initial details of new members of staff etc.</p> <p>In the absence of the Governance and Secretariat Officer, if the CEO is unable to resolve any urgent issue with the HR system, the software suppliers operate a help line which is able to assist.</p> <p>General oversight of the Governance and Secretariat Officer is provided by the CEO as line manager. A degree of oversight of the Governance and Secretariat Officers' role in relation to HR is given by the Head of Finance with whom he works to prepare the monthly payroll. However, no specific oversight/checking function is in place. Given the small size of the organisation, and the close working with the Head of Finance this is thought to be appropriate.</p>

Recommendation 5: Data Integrity (Priority 2)

<p>Recommendation</p> <p>LWARB should create an Information Asset Register and put a Data Integrity Strategy in place, including a data / information retention policy.</p> <p>Data that is no longer required and is not reasonable to retain should be removed and destroyed.</p> <p>LWARB should formulate a plan to store all personal information in one place, such as on the HR system which is designed for this purpose.</p> <p>Personnel files should be maintained in a consistent manner, with all relevant documents retained for each employee.</p>
<p>Risk</p> <p>Where there is no Information Asset Register in place, LWARB may not have adequate documentation of the personal data it holds, in what location and for what purpose. The organisation may not have adequate documentation of the data it processes</p> <p>Where there is no Data Integrity Strategy in place, including a data / information retention policy, there is a risk that personal information may become inaccurate and may be kept for longer than is necessary, thereby being contrary to the Data Protection Act and GDPR.</p> <p>Multiple recording of personal information increases the risk of errors within different locations and is an inefficient use of time.</p>
<p>Observation</p> <p>An Information Asset Register (IAR) has not yet been created and there is no Data Integrity Strategy currently in place. As a result, LWARB does not have a data / information retention policy.</p> <p>HR information can be stored in up to three locations. A sample of five members of staff was selected to check what documents are held across the three storage locations:</p> <ol style="list-style-type: none"> 1) Paper files contain the original signed service agreements and some include an offer letter (2/5), starter form (3/5), new starter checklist (1/5) and/or passport (3/5). 2) Confidential electronic files on LWARB’s shared drive contain more HR documents, including in some cases: the offer letter (3/5), a Starter Form (2/5), a new starter checklist (4/5), copy of passport (3/5) and references (2/5). This was not consistent across the sample. 3) Within YouManage, records for each member of staff included a Service Agreement, a job description, leave records (holidays and sickness) and personal info such as address, emergency contacts and salary. <p>References were not recorded at all in three cases, the passport of one member of staff was not recorded, and offer letters, Starter Forms and new starter checklists were inconsistently held in either the paper files, the electronic files, both or neither.</p> <p>No employee data or hard copy files have been removed or deleted (for example, if employees have left). Furthermore, most recruitment applications received since LWARB started have been retained.</p>
<p>Responsibility</p> <p>Governance & Secretariat Officer</p>

Management Response / Deadline

As part of the preparations for the implantation of the GDPR, a full retention schedule, covering not just personal data, has been developed, and will be implemented in the coming months. In preparation for the move out of LWARB offices, a thorough audit of information currently held will be undertaken. The retention schedule will be applied so that only appropriate data is transferred to the new office.

Storage of HR information is to be consolidated within the HR system. At present only basic information for all employees is held in the system as it was uploaded when the system went live. LWARB will need to decide whether historical HR data is to be loaded in to the system or otherwise archived.

Autumn 2018

Recommendation 6: Preparation for GDPR (Priority 2)

<p>Recommendation</p> <p>LWARB should finalise a plan to work towards compliance with GDPR.</p>
<p>Risk</p> <p>Non-compliance with GDPR could lead to financial penalties and there may be an increased risk of reputational damage.</p>
<p>Observation</p> <p>GDPR will be discussed at the next meeting of the Board for the first time on 10 May 2018, two weeks before the new regulations come into operation. The Governance and Secretariat Officer has produced a draft plan for this meeting and has developed a spreadsheet which is being used to collate lists of data held by LWARB.</p>
<p>Responsibility</p> <p>CEO</p>
<p>Management Response / Deadline</p> <p>GDPR preparations were considered by the Board on 10 May and by the Audit Committee on 22nd May. Significant progress has been made in the preparations for the GDPR since the audit fieldwork was undertaken. LWARB's general approach has been agreed with its legal advisors, the CEO identified as the Data Protection Officer, a full data audit has been carried out and Article 30 documentation prepared, including evaluation of the lawful bases of all processing. The LWARB privacy Policy has been updated and is being communicated to data subjects. Policies have been developed for dealing with subject access requests and data breaches. Further details may be seen in paper AC22/5/18 -9.</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:

Wayne Hubbard	-	Chief Executive Officer
Adam Leibowitz	-	Governance and Secretariat Officer

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

Statement of Responsibility

We take responsibility to LWARB 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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