



# London Waste and Recycling Board

## Internal Audit Annual Report 2017/18

May 2018

This report has been prepared on the basis of the limitations set out on page 10.

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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.

## 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 2017/18 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 2017/18 included a total of two internal audit projects, together with time set aside to refresh the strategic risk register through the facilitation of a Risk Management Workshop. 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 2017/18.

In this report we have drawn on the findings and assessments included in both internal audit reports issued in 2017/18.

## Overall Summary

**As illustrated in the table below, we have found a generally sound control environment during the audit year. During the 2017/18 year, each internal audit project was rated 'satisfactory 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 2017/18. 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 2017/18, 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:

- Given the changes to the Accounting System from Sage to Xero, the financial policies and procedures should be updated and reviewed by the Board and Audit Committee. The policies should reflect any changes and updates made to the systems.
- Purchase card bank statements should be reviewed and signed on a monthly basis.
- Where amendments are made to supplier details on the Xero system (including address or bank details), a note should be recorded within the accounting system.

### Advance London

- The frequency of meetings of the Investment Committee should be sufficient to enable effective oversight of the Investment Strategy.

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. The frequency of meetings of the Investment Committee should be sufficient to enable effective oversight of the Investment Strategy.

- 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.
- The Investment Committee should be provided with reports for the Advance London investment programme, which incorporate other objectives alongside portfolio revenues.

Provisional details of reporting should be included in investment proposals where possible for consideration prior to investment.

## Human Resources

- The Employee Handbook should be reviewed and approved by the Audit Committee or the Board. This should be evidenced in meeting minutes.  
  
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.
- 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).
- LWARB should create an Information Asset Register and put a Data Integrity Strategy in place, including a data / information retention policy.  
Data that is no longer required and is not reasonable to retain should be removed and destroyed.  
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.  
Personnel files should be maintained in a consistent manner, with all relevant documents retained for each employee.
- LWARB should finalise a plan to work towards compliance with GDPR.

Assurance Gradings	Number of Projects			
	Evaluation		Testing	
Full	0	0%	0	0%
Substantial	3	100%	3	100%
Limited	0	0%	0	0%
Nil	0	0%	0	0%
<b>Total</b>	<b>3</b>		<b>3</b>	

### Opinion 2017/18

From the Internal Audit work undertaken in compliance with the PSIAS in 2017/18, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at the London Waste and Recycling Board for the year ended 31<sup>st</sup> March 2018 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 2017/18, we have carried out audits where governance arrangements were a key aspect. 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 2018.

### 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 27<sup>th</sup> November 2017 attended by members of the Board, Audit Committee 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.

During the course of delivering the 2017/18 audit plan, a key element of each audit scope was to evaluate the control environment and, in particular, how key risks were being managed. As summarised in the 'Overall Summary' section above, we were able to place reliance on the systems of internal control and the manner in which risks were being managed by the Board.

### 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	90%	100%
Percentage of responses to the draft report received on time	90%	100%
Percentage of final audit reports issued on time	95%	100%
Percentage of recommendations accepted in 2017/18	90%	100%

## Appendix 1 - Audit Opinions and Recommendations 2017/18

Auditable Area	Evaluation Assessment	Testing Assessment	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Core Financial Systems	Satisfactory	Satisfactory	-	3	-	3
Advance London	Satisfactory	Satisfactory	-	3	1	4
Human Resources	Satisfactory	Satisfactory	-	4	2	6
<b>Total</b>			<b>0</b>	<b>10</b>	<b>3</b>	<b>13</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>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.

### 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 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. 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 by any third party is entirely at their own risk.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

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