



# London Waste and Recycling Board

## Internal Audit Annual Report 2016/17

June 2017

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 2016/17 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 2016/17 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. As a consequence of changes to the LWARB Board and Audit Committee, the risk workshop has yet to be carried out and we are awaiting confirmation from management as to a convenient date to hold it. The aim is to agree the 2017/18 Internal Audit Plan in light of the refreshed 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 2016/17.

In this report we have drawn on the findings and assessments included in both internal audit reports issued in 2016/17.

## Overall Summary

**As illustrated in the table below, we have found a generally sound control environment during the audit year. During the 2016/17 year, both internal audit projects were 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 2016/17. 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 2016/17, 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:

- Manual adjustments to an employee's pay for a given period should be administered through an additional line on the payroll rather than through a direct adjustment to the employee's gross salary for that month. This additional line should be removed in the following period where the adjustment is no longer valid.
- Purchase card bank statements should be reviewed and signed on a monthly basis.
- Sales invoices should be accurately raised and should clearly evidence a due date for receipt of payment and payment details, including bank details. LWARB should run a monthly aged debtors report and should send formal reminders to chase any unpaid fees.
- Control account reconciliations should be completed on a quarterly basis and these should be subject to a secondary review.

### Resource London

- The grant funding agreement should be restated each financial year to confirm the agreement between LWARB and WRAP of the partnership funding arrangements.
- The WRAP Recycling Tracker Survey results should be used to monitor against the proxy indicators in line with the 2016/17 Programme Plan. This should be completed in a timely manner and reported to the Resource London Partnership Board for review and scrutiny.
- Forecasts for spend against the WRAP grant funding budget should be introduced into the budget tracker to improve the budget monitoring process.

Assurance Gradings	Number of Projects			
	Evaluation		Testing	
Full	0	0%	0	0%
Substantial	2	100%	2	100%
Limited	0	0%	0	0%
Nil	0	0%	0	0%
<b>Total</b>	<b>2</b>		<b>2</b>	

### Opinion 2016/17

From the Internal Audit work undertaken in compliance with the PSIAS in 2016/17, 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 2017 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 2016/17, we have carried out audits where governance arrangements were a key aspect, most notably as part of the audit of Resource London. 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 2017.

It should be noted that at the time of both audits, the last meeting of the Board was held on 17<sup>th</sup> March 2016 and the last meeting of the Audit Committee was held on 12<sup>th</sup> July 2016. This was as a consequence of the change in administration (Mayor of London) and the expiry of member terms in office which resulted in committee membership changing. New memberships of the Board and Audit Committee have now been established and Internal Audit attended the first meeting of the 'new' Audit Committee on 28<sup>th</sup> March 2017.

### Risk Management

During 2015/16 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 in 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.

As a consequence of the changes referred to under 'Corporate Governance' above, we were not able to refresh the Strategic Risk Register during 2016/17, although envisage that this will be carried out in the coming months. However, during the course of delivering the 2016/17 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%	50%
Percentage of final audit reports issued on time	95%	100%
Percentage of recommendations accepted in 2016/17	90%	100%

## Appendix 1 - Audit Opinions and Recommendations 2016/17

Auditable Area	Evaluation Assessment	Testing Assessment	Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total
Core Financial Systems	Satisfactory	Satisfactory	-	4	1	5
Resource London	Satisfactory	Satisfactory	-	3	1	4
Follow-up of Recommendations	N/A	N/A	-	-	-	0
<b>Total</b>			<b>0</b>	<b>7</b>	<b>2</b>	<b>9</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 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 2017**

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