

INTERNAL AUDIT

West London Waste Authority (WLWA)

Annual Internal Audit Report & Opinion Statement 2015/16

Draft for Audit Committee as at 31st July 2016



Contents

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1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Authority achieve its corporate objectives. It is also a requirement of the Accounts and Audit (England) Regulations 2015 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account public sector internal auditing standards or guidance.
- 1.1.2 IA give an objective opinion to the Authority on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA service provided to the Authority fully embraces the risk based approach which means IA provides greater assurance to the Authority because it is focused on the key risks to the achievement of the organisation's objectives. As a result, IA does not just comment on whether the controls operate, but whether they are the right controls to mitigate risk and enhance the likelihood of achieving the overall aims of the service.
- 1.1.3 The UK Public Sector IA Standards (PSIAS) promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

1.2 The Purpose of the Annual Internal Audit Report and Opinion Statement

- 1.2.1 This annual report summarises the main findings arising from the 2015/16 IA assurance work. The report also provides IA key stakeholders, including the Authority's Officers Team and the Audit Committee, with an opportunity to hold the Head of Internal Audit (HIA) to account on delivery of the 2015/16 IA Plan and on the effectiveness of the IA service.
- 1.2.2 The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Authority in meeting the requirements of the Accounts and Audit (England) Regulations 2015.

2. Executive Summary

- 2.1 The HIA is pleased to report that delivery of **the 2015/16 IA plan was 100% complete to final report stage by 31st March**. This is an excellent achievement for IA and the Authority.
- 2.2 Delivery of the IA plan for 2015/16 has been achieved in a timely manner by applying a fully risk based approach to help focus IA resources on the key risks facing the Authority. In addition, the HIA believes this relative success is predominantly due to the collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Authority. Further details of IA performance can be found at para 6.1 of this report.
- 2.3 From the 2015/16 IA work undertaken:

*It is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control that has been in place at WLWA for the year ended 31st March 2016 accords with proper practice.*

- 2.4 In total, **4** IA assurance reviews have been delivered as part of the revised 2015/16 IA plan. All 4 assurance reviews resulted in a **REASONABLE** assurance IA opinion. No **HIGH** risk recommendations have been raised during 2015/16. All **MEDIUM** risk recommendations raised by IA were accepted by management with positive action proposed. Further analysis of the IA assurance levels issued in 2015/16 along with an analysis of the risk recommendations raised can be found in section 4 of this report.
- 2.5 The key findings from the **4 IA assurance reviews** were as follows:
- (WL1) Waste Tonnage Data - REASONABLE Assurance
- As detailed at **Appendix A**, IA raised **9 recommendations** as part of this audit including **4 MEDIUM** risk recommendations and **5 LOW** risk recommendations.
 - The **4 MEDIUM** risk recommendations related to the access to key system data, backup of weighbridge systems, the IT Service Level Agreement and weighbridge calibrations. Management's response to the recommendations raised was positive and the action proposed by management appears constructive to enhance the robustness of the control environment and resulting management information.
- (WL2) Trade and Other Income - REASONABLE Assurance
- As detailed at **Appendix A**, IA raised **7 recommendations** as part of this audit including **2 MEDIUM** risk recommendations and **5 LOW** risk recommendations.
 - The **2 MEDIUM** risk recommendations related to the Authority's outdated Financial Regulations and the un-timely raising of trade waste invoices. Proactive and positive management response to both recommendations was proposed.
- (WL3) Contracts and Procurement - REASONABLE Assurance
- As detailed at **Appendix A**, IA raised **8 recommendations** as part of this audit including **6 MEDIUM** risk recommendations, **2 LOW** risk recommendations and **1 NOTABLE PRACTICE**.
 - The **6 MEDIUM** risk recommendations related to the knowledge and awareness of changes in legislation arising from the Public Contract Regulations 2015, review of the Authority's Tender and Contract Regulations, capturing declarations of interest, review of the tender evaluation and opening processes and updates to the Authority's Contract Register. Management's response to the recommendations raised was positive and the action proposed by management appears constructive to address risks identified.
- (WL4) Assets and Inventory - REASONABLE Assurance
- As detailed at **Appendix A**, IA raised **4 recommendations** as part of this audit including **3 MEDIUM** risk recommendations and **1 LOW** risk recommendations.
 - The **3 MEDIUM** risk recommendations related to the asset register guidance, asset identifiers, and recording of asset disposals. Positive management action was proposed to each recommendation raised.
- 2.6 As at 31st July 2016, **100%** (all 15) of the **MEDIUM** risk recommendations raised within the 2015/16 assurance reviews were **verified by IA as operational and fully embedded within the Authority's internal control environment**. Further details of the work done on the follow-up of IA recommendations can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2015/16

3.1 Background

- 3.1.1 The HIA opinion statement is provided to inform the Director and Chair of the Authority and to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2015/16 year.

3.1.2 The AGS provides public assurances about the effectiveness of the Authority's governance arrangements, including the system of internal control. The HIA opinion statement meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015 and is in line with the UK PSIAS.

3.2 Scope of Responsibility

3.2.1 The Authority is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Authority 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.

3.2.2 In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Authority has a statutory responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

3.3 The Purpose of the System of Internal Control

3.3.1 The Authority's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.

3.3.2 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's corporate objectives. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.4 Annual Opinion Statement on the Effectiveness of the System of Internal Control

3.4.1 The HIA opinion is based primarily on the IA assurance work carried out by IA service during 2015/16, as well as a couple of other assurance providers.

3.4.2 The IA Plan for 2015/16 was developed to primarily provide the WLWA Officers Team and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control.

3.5 Basis of Assurance

3.5.1 All 2015/16 IA reviews have been conducted in accordance with the PSIAS. An external assurance review of the Authority's IA service provider confirmed that the IA service has overall met the requirements of the PSIAS in 2015/16.

3.5.2 In line with the PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix of the IA staff who have provided assurance to the Authority are also professionally qualified and suitably experienced. Therefore, the 2015/16 IA resources fulfilled the PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

3.6 Qualifications to the Opinion

3.6.1 During 2015/16 the Authority's IA service:

- had **unrestricted access to all areas and systems** across the Authority;

- received **appropriate and full co-operation from officers and members**;
- had **sufficient resources to enable it to provide adequate coverage** of the Authority's control environment to provide the overall opinion (refer to para 3.11.3).

Consequently, **there are no qualifications to the HIA opinion statement for 2015/16.**

3.7 Other Assurance Providers

3.7.1 In formulating the HIA overall opinion on the Authority's system of internal control, the HIA has taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions which included:

- The Audit Committee; and
- Coverage by External Audit.

3.8 Significant Internal Control Weaknesses

3.8.1 IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year. **There were NO significant control weaknesses identified by IA during 2015/16.**

3.9 Risk Management

3.9.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Authority to achieve its corporate objectives.

3.9.2 IA is unable to provide a formal opinion on the effectiveness of Authority's RM arrangements as we have not undertaken an assurance review specifically relating to RM during the 2015/16 period. However, we are aware that the Authority has components of good practice in place to govern effective RM. This includes the Authority's RM policy and procedures and promotion of these through the Authority, the responsibility of which is clearly stated and defined under Financial Regulation 44.

3.9.3 Furthermore, the Authority maintains a corporate risk register which sets out the risks that the Authority is exposed to. The risk register explains what action management are taking to mitigate risk. Each risk is assessed in terms of impact and probability, given an overall risk rating score and has clear accountability for risk ownership. The risk register is regularly updated, reported and reviewed at all levels within the Authority and considered at the Authority's Audit Committee (who met twice during 2015/16) informing Members of significant changes to prioritised risks (**RED** and **AMBER**).

3.9.4 A full assurance review of the Authority's risk management arrangements will be conducted as part of the 2016/17 IA plan, providing independent assurance to Senior Management and the Audit Committee over the adequacy of the current risk management arrangements.

3.10 Corporate Governance

3.10.1 Corporate governance (CG) can be defined as the way in which the Authority is *directed* and *controlled*. It comprises a combination of systems, processes and structures as well as the culture of the Authority. Good governance is acknowledged to be essential for the success of any organisation and leads to good management, performance, stewardship of public money, and fundamentally good outcomes for stakeholders. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services, value for money and delivery of stakeholder expectations.

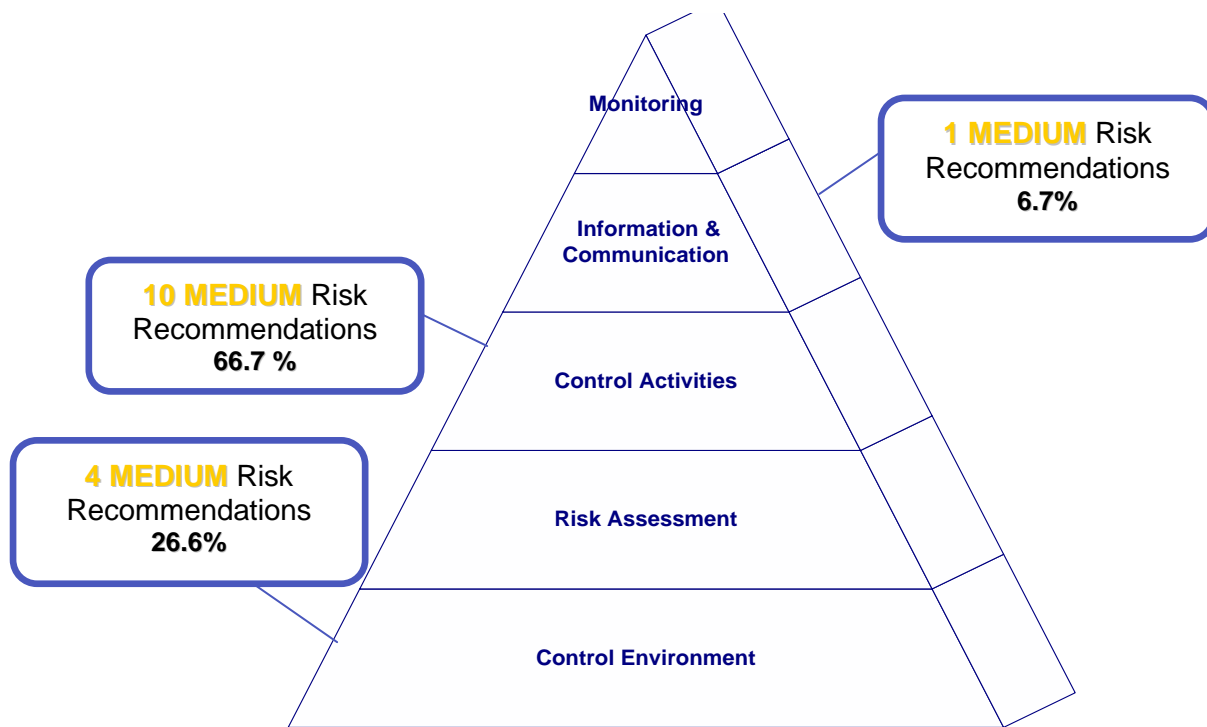
- 3.10.2 IA is unable to provide a formal opinion on the effectiveness of Authority's CG arrangements as we have not undertaken a detailed assurance review in this area during the 2015/16 period. However, we have evidenced that clear arrangements are in place. A Local Code of CG, based on best practice recommendations published by CIPFA, was approved by the Authority in July 2016. As a subset to this Code, a CG plan is in place which includes actions for improving CG arrangements.
- 3.10.3 There are also a number of other documents in place which help to govern the Authority and its activities, these include:
- Business Plan (2016-19);
 - Joint Waste Management Strategy;
 - Statement of Accounts;
 - Key Performance Indicators;
 - Standing Orders;
 - Financial Regulations and related Policies;
 - Officers Code of Conduct;
 - Members Code of Conduct; and
 - Scheme of Delegations for Officers.
- 3.10.4 A full assurance review of the Authority's CG arrangements will be conducted as part of the 2016/17 IA plan, providing independent assurance to Senior Management and the Audit Committee over the adequacy of the current governance arrangements.

Annual Governance Statement

- 3.10.5 The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Authority has a statutory obligation under the Accounts and Audit (England) Regulations 2015 to prepare an Annual Governance Statement (AGS), a significant component of the Authority's governance framework. The AGS provides the Authority with a mechanism to demonstrate its positive governance culture and also enables stakeholders to understand the governance arrangements the Authority has in place. The AGS supports the Annual Statement of Accounts and identifies any significant governance issues.
- 3.10.6 IA established that the draft AGS was produced as part of the draft Annual Statement of Accounts for 2015/16, presented to the West London Waste Authority on the 1st July 2016. We are aware that assurance statements are completed by the Authority's Chief Officers and Senior Managers to demonstrate the ownership for the quality of governance arrangements around service areas for which they are responsible.
- 3.10.7 **There were NO significant governance weaknesses identified within the 2015/16 Draft AGS reported to the Authority on 1st July 2016.** The 2015/16 AGS is in the process of being finalised for the Annual Statement of Accounts for 2015/16 that will be presented to Audit Committee on 23rd September 2016, prior to approval by the Authority.

3.11 Internal Control

- 3.11.1 The IA opinion on the Authority's internal control system is **based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Committee (COSO)**. These components provide an effective framework for describing and analysing the internal control system implemented in an organisation. The diagram overleaf details the elements of the COSO internal control framework and the number of **MEDIUM** IA risk recommendations pertinent to each component.



The COSO Internal Control Framework

3.11.2 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to raising trade waste invoices in a timely manner, updating the contract register, itemising assets and reviewing the format of tender opening records. The other component of the framework with a notable number of recommendations was the control environment. These relate to things such as the absence of public contract regulations training and a formal I.T support service level agreement.

3.11.3 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2015/16, and the other sources of assurance referred to at para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Authority for the year ended 31st March 2016 accords with proper practice.**

4. Analysis of Internal Audit Activity 2015/16

4.1 Internal Audit Assurance Work 2015/16

4.1.1 The 2015/16 IA assurance work may be summarised by the assurance level achieved (definitions of the IA assurance levels are included at **Appendix B**) as per the table below:

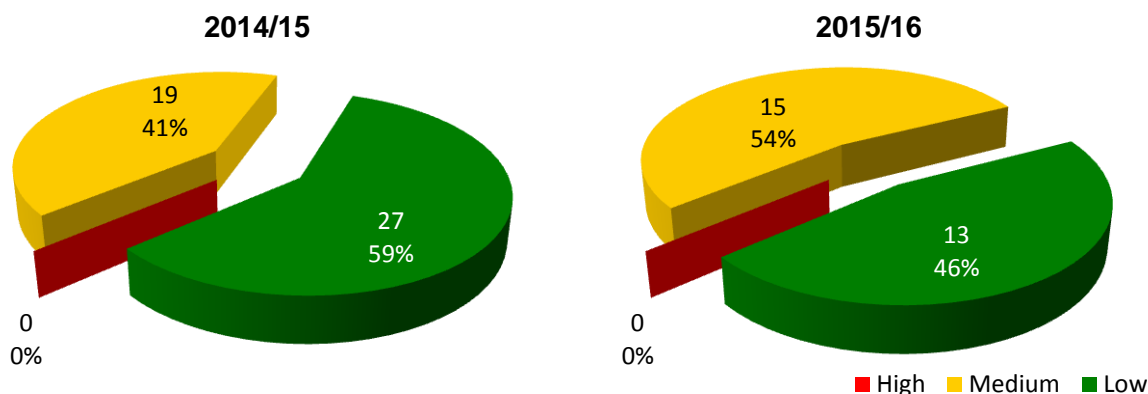
Assurance Level	Number of IA Assurance Reports	Assurance %
REASONABLE	4	100%
TOTAL	4	100%

4.1.2 The table above highlights that of the areas audited in 2015/16, each was assessed by IA as providing a **REASONABLE** level of assurance. This is against a backdrop of IA resources being focused on key risk areas to the Authority and therefore reflects positively on the overall control environment within the Authority. The individual assurance audits carried out during 2015/16 are fully listed at **Appendix A** which indicates the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix B**).

4.1.3 There were **28** IA risk recommendations raised in total in 2015/16:

Risk Rating	Number of IA Recommendations	%
HIGH	0	0%
MEDIUM	15	54%
LOW	13	46%
TOTAL	28	100%
NOTABLE PRACTICE	1	-

4.1.4 Given that a risk based IA approach has been applied in 2015/16, it is in line with our expectations that over **half of the IA recommendations raised** are rated as **MEDIUM** risk. This distribution does however represent a 24% percentage increase in medium risk recommendations when compared to the prior year. The breakdown of all 2015/16 IA recommendations by risk rating (as outlined at **Appendix B**) is provided in the charts below. We have included the prior year (2014/15) results for illustrative and comparative purposes:



5. Internal Audit Follow Up

- 5.1 IA monitor all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk IA recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation i.e. adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations, however management have confirmed that all 13 low risk recommendations have been accepted and implemented. The full definitions of the IA recommendation risk ratings are included at **Appendix B**.
- 5.2 The implementation of recommendations raised by IA is monitored solely by one member of the IA team. Having this single point of contact for this area of work allows IA staff to focus on delivery of the IA plan and will further streamline the process of following up IA recommendations in the future. TeamCentral provides the WLWA Officers Team and other senior managers with greater oversight and ownership of IA recommendations and the underlying risks.
- 5.3 The focus of the IA work on follow-up this year has been on **all** outstanding **MEDIUM** risk IA recommendations which have reached their target date for implementation and verifying management actions to mitigate the proposed risks. **We are pleased to report that as at 31st July 2016, there were no MEDIUM risk recommendations outstanding from 2015/16 IA assurance reviews.**

- 5.4 IA will support and advise managers in formulating a response to the risks identified. As an organisational improvement function, IA will also offer assistance to management to help devise pragmatic and robust action plans arising from IA recommendations. Good practice in IA and risk management encourages management to respond to risks in any combination of the following four ways; Treat, Terminate, Tolerate, Transfer - **the 4 T's**. The full definitions of the response to risk are included at **Appendix B**.
- 5.5 The **4** IA assurance reviews have resulted in **28** IA recommendations being raised in 2015/16 as well as **1 NOTABLE PRACTICE**. Given that we are taking a risk based IA approach to IA coverage, it is a positive outcome that **no HIGH risk recommendations were raised in 2015/16**. The table below summarises the **status of IA 2015/16 recommendations** raised as at 31st July 2016:

2015/16 IA Recommendation Status as at 31 st July 2016	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of Recommendations Raised (per Appendix A)	-	15	13	28	1
No. of Recommendations due for Follow-up Implementation	-	15	-	15	-
No. of Recommendations Implemented	-	15	-	15	-
No. of Recommendations Outstanding	-	-	-	-	-

- 5.6 Positive management action was proposed to address **all 15** 2015/16 **MEDIUM** risk IA recommendations raised with management choosing to treat all 15 medium risk recommendations raised. Further, IA is pleased to report that all 15 recommendations have been confirmed by management as being implemented through TeamCentral.
- 5.7 IA has recently undertaken verification testing on **MEDIUM** risk recommendations to confirm and support management's assertion that recommended actions have been implemented and embedded within the control environment. Of the **15** recommendations for 2015/16, each of which had reached their implementation date, we are pleased to report that no **MEDIUM** risk recommendations remain outstanding as at 31st July 2016.
- 5.8 The status of IA recommendations has been communicated with senior officers via the annual follow up review, verifying the implementation of management action. A copy of this report is also presented to the Audit Committee for information.

6. Review of Internal Audit Performance

6.1 Key Performance Indicators

- 6.1.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service to the Authority. They assist IA and the Authority in helping measure how successful IA has been in achieving its strategic and operational objectives in addition to the overall IA Plan and ensuring that assurance is provided to Senior Management and the Audit Committee in a timely and effective manner. KPIs for 2015/16 are included at **Appendix C** with actual cumulative IA performance for 2015/16 highlighted in the table below and overleaf:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%	N/A	N/A

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%	N/A	N/A
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	80%	GREEN
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 st March	90%	100%	GREEN
KPI 6	Percentage of IA Plan delivered to final report stage by 31 st March	80%	100%	GREEN
KPI 7	Percentage of draft reports issued as within 10 working days following the exit meeting	90%	100%	GREEN
KPI 8	Percentage of draft reports issued as a final report within 5 working days after receiving management responses to the HIGH and MEDIUM risk IA recommendations proposed	90%	100%	GREEN
KPI 9	Client Satisfaction Rating	85%	97%	GREEN
KPI 10	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%	100%	GREEN

6.2 Client Feedback Questionnaires

- 6.2.1 IA send out a client feedback questionnaire (CFQ) at the completion of all assurance reviews to capture and obtain formal management feedback. The **IA CFQ target** previously agreed with the Officers Team and the Audit Committee was for IA to achieve **an overall average score of 3.4 (85%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client *strongly agrees*; **3** is *agree*; **2** is *disagree*; and **1** is *strongly disagree*.
- 6.2.2 There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HIA to enable management to form an overall and definitive opinion on the work that IA does i.e. did the internal audit review add value or not?
- 6.2.3 Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is unhappy i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.
- 6.2.4 However, as can be seen from the table below, IA has exceeded its target on 8 out of 8 CFQ areas in 2015/16. IA is pleased to report that the overall average CFQ score for 2015/16 is **97%**, which is 12% above the target performance for IA. The table overleaf shows a breakdown of the average score from the **4 CFQs completed since 1st April 2015** (as per **Appendix A**):

IA CFQ Areas	Average Score 2015/16	Percentage
Q1. Planning: The planning arrangements for the IA review were good	3.75	93.75%
Q2. Scope: The scope of the IA review was relevant	3.75	93.75%
Q3. Conduct: The IA review was conducted in a highly professional manner	4	100%
Q4. Timing: The IA review was carried out in a timely manner	4	100%
Q5. Report: The IA report was presented in a clear, logical and organised way	4	100%
Q6. Recommendations: The IA recommendations were constructive and practical	3.75	93.75%
Q7. Value: The IA review added value to your service area	3.75	93.75%
Q8. Overall: I look forward to working with IA in future	4	100%
Overall Average CFQ Score	3.88	97%

- 6.2.5 IA is extremely grateful to management for the formal feedback in CFQs it has received. A **100% completion rate of CFQs** is excellent and will help IA continue to improve as a service.

7. Forward Look

- 7.1 Looking forward to 2016/17, the IA focus will be on delivering consistently high quality value added IA assurance reviews. The IA Plan for 2016/17 has been agreed by the Authority and includes **four** assurance reviews relating to *Creditors, Risk Management, Waste Minimisation and Governance*.
- 7.2 The software in use by IA (TeamMate) will continue to help **improve the monitoring, follow-up and tracking of IA recommendations** by management. The WLWA Officers Team can easily monitor the progress and status of all IA recommendations and the action plans established. This provides for greater responsibility on management, as owners of the risks, to provide progress updates on their recommendations.
- 7.3 IA would like to take this opportunity to formally thank all those staff throughout the Authority with whom IA it had contact with during the year. There has been a collaborative approach in IA's relationship with the WLWA Officers Team who have responded positively, both informally and through the formal CFQ reporting.
- 7.4 There are no other matters that we need to bring to the attention of the WLWA Officers Team or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance

31st July 2016

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2015/16**

Key:	
IA = Internal Audit	NP = Notable Practice
H = High Risk	CFQ = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	

2015/16 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 31 st July 2016	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
WL1	Waste Tonnage Data	Final report issued 9 th September 2015	REASONABLE	-	4	5	-	✓
WL2	Trade and Other Income	Final report issued 12 th November 2015	REASONABLE	-	2	5	-	✓
WL3	Contracts and Procurement	Final report issued 12 th January 2016	REASONABLE	-	6	2	1	✓
W4	Asset and Inventory	Final report issued 11 th March 2016	REASONABLE	-	3	1	-	✓
Total number of IA Assurance Recommendations raised in 2015/16				-	15	13	1	
Total percentage of IA Assurance Recommendations raised in 2015/16				-	51%	46%	3%	

APPENDIX B**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

Assurance Level	Definition
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Authority objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Authority objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Authority objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Authority objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

- 1. Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - Establishing and monitoring the achievement of the authority's objectives;
 - The facilitation of policy and decision-making;
 - Ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - The financial management of the authority and the reporting of financial management; and
 - The performance management of the authority and the reporting of performance management.
- 2. Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.
- 3. Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX B (cont'd)**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

Risk	Definition
HIGH ●	The recommendation relates to a significant threat or opportunity that impacts the Authority's corporate objectives. The action required is to mitigate a substantial risk to the Authority. In particular it has an impact on the Authority's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Authority. In particular an adverse impact on the Department's reputation, adherence to Authority policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Authority as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE ●	The activity reflects current best management practice or is an innovative response to the management of risk within the Authority. The practice should be shared with others.

RISK RESPONSE DEFINITIONS

RISK RESPONSE	DEFINITION
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.

APPENDIX C**INTERNAL AUDIT KEY PERFORMANCE INDICATORS 2015/16**

KPI Ref.	Performance Measure	Target Performance
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 st March	90%
KPI 6	Percentage of IA Plan delivered to final report stage by 31 st March	80%
KPI 7	Percentage of draft reports issued as within 10 working days following the exit meeting	90%
KPI 8	Percentage of draft reports issued as a final report within 5 working days after receiving management responses to the HIGH and MEDIUM risk IA recommendations proposed	90%
KPI 9	Client Satisfaction Rating	85%
KPI 10	IA work fully compliant with the UK PSIAS and IIA Code of Ethics	100%

Key for above:

- **PSIAS** = Public Sector Internal Audit Standards.
- **IIA** = Chartered Institute of Internal Auditors (UK).

Key for future reporting on actual KPI performance:

- **RED** = currently this performance target is not being met (significantly [**>5%**] short of target performance).
- **AMBER** = currently not meeting this performance target (just short [**<5%**] of target performance).
- **GREEN** = currently meeting or exceeding this performance target.