

## West London Waste Authority

Hugh Peart  
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17 January 2018

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### West London Waste Authority - Audit Committee

A meeting of the West London Waste Authority - Audit Committee will be held in Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY on Friday 26 January 2018 at 10.00 am

#### MEMBERSHIP

Councillor Keith Burrows, London Borough of Hillingdon  
Councillor Amritpal Mann, London Borough of Hounslow (Chair)  
Councillor Eleanor Southwood, London Borough of Brent

Independent Person: Andrea White

### AGENDA

#### **PART I - ITEMS FOR CONSIDERATION WHILE THE PRESS AND PUBLIC ARE IN ATTENDANCE**

1. Apologies for absence
2. Declarations of interest

Members are reminded that if they have a pecuniary interest in any matter being discussed at the meeting they must declare the interest. They may not take part in any discussion or vote on a matter in which they have a pecuniary interest.

3. Minutes of the meeting held on 22 September 2017 **(Pages 3 - 6)**
4. Internal Audit - Final Assurance Report 2017/18 **(Pages 7 - 56)**
5. Risk Register **(Pages 57 - 62)**
6. External Audit Planning Report - Year ended 31 March 2018 **(Pages 63 - 102)**

## **PART II - ITEMS FOR CONSIDERATION AFTER THE EXCLUSION OF THE PRESS AND PUBLIC**

**Nil**

### **Recording and reporting on public meetings**

Please note that members of public can choose to record or report in other ways, on this public meeting. If you wish to do so then please read the Authority's protocol which can be found [online](#). Copies of the protocol are also available at the meeting.

The Authority asks that you avoid recording members of the audience who are not participants at the meeting. The Authority will seek to facilitate this. However, anyone attending a public meeting does so in the knowledge that recording may take place and that they may be part of that record.

Hugh Peart  
Clerk to the Authority

At a meeting of the West London Waste Authority - Audit Committee held on Friday 22 September 2017 at 10.00 am at the Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY.

**Present:**

Councillor Amritpal Mann (Chair)

Councillor Eleanor Southwood

**Apologies for Absence**

Councillor Keith Burrows and Andrea White

**36. Apologies for absence**

Apologies for absence were received from Councillor Keith Burrows and Andrea White.

**37. Declarations of interest**

**RESOLVED:** To note that there were no declarations of interests made by Members.

**38. Minutes of the meeting held on 27 January 2017**

**RESOLVED:** That the minutes of the meeting held on 27 January 2017 be taken as read and signed as a correct record.

**39. Annual Internal Audit Report and Opinion Statement 2016/17**

The Committee received the Annual Internal Audit Report and Opinion Statement 2016/17.

The Committee were advised that, overall, the Head of Internal Audit could provide a reasonable assurance that the system of internal control that had been in place at the Authority for the year ended 31 March 2017 accorded with proper practice. In total, five pieces of Internal Audit work had been delivered as part of the 2016/17 Internal Audit Plan. This included four assurance reviews and one follow up review. Three of the assurance reviews had resulted in a reasonable assurance opinion being provided with one having received a limited assurance opinion.

The Head of Finance reported that the Committee's Independent Person had submitted some queries/comments on the report and which he reported to the meeting as follows:-

- A reasonable assurance was a positive result;
- It would be useful to be appraised of the senior management team's views;
- Could the Internal Auditor provide views on how easy it would be to achieve assurance.

The Head of Finance stated that from his perspective it was quite challenging to

implement all controls and measures with the staffing resource available. The focus was therefore on key risks and issues. Areas where substantial assurance could be assumed were where internal audit recommendations were now implemented. This was endorsed by the Internal Auditor.

The Head of Finance undertook to respond to the queries raised by the Independent Person.

**RESOLVED:** That the report be noted.

#### **40. West London Waste Authority Audit Results report**

The Committee received the Authority's Audit results report for the year ended 31 March 2017 and welcomed Helen Thompson and Jo Taylor, External Auditors, Ernst & Young, to the meeting.

Helen Thompson introduced the report which summarised the work carried out by the external Auditor and advised that it was proposed to issue an unqualified opinion on the Authority's accounts. To date, no objections had been received so the Auditors would be able to certify the accounts closed. Ms Thompson also advised that the Auditor would submit their next report to the June 2018 meeting and that she was confident that the resulting earlier deadlines could be met.

Helen Thompson reminded the Committee that three significant risks had been identified in January 2017, namely fraud in revenue recognition, management override and the increase in property/plant/equipment value. She advised that the latter was a significant transaction and had been closely scrutinised to ensure that there was the correct financial information moving forward.

The Committee were advised that the additional work carried out by the Auditor had been reflected in an increase in their fee from £19,770 to £40,000. Ms Thompson stated that the intention was that the fee in 2017/18 would return to approximately £19,000. Jay Patel, Head of Finance, reported that the increase in the auditor's fee had been raised by Andrea White, Independent Person, and that she had stated that it would be helpful to have the auditor's views as to whether the difficulties with the audit were isolated to the Valuer's report. Helen Thompson, External Auditor, confirmed that there was no issue with the officers but that there was a need to draw on the expertise from specialists for one-off areas of work this year.

Members expressed concern at the doubling of the audit fee and sought clarification on the options available to address the increase. Helen Thompson advised that whilst the potential additional work had been flagged up in the Audit Plan, it had not been expected that it would have been of the level it had been. The fee would be subject to the approval of the Public Sector Audit Authority (PSSA) which would require a breakdown of the fee, which she could also provide to the Authority.

**RESOLVED:** That the report be noted.

#### **41. Risk Register**

The Committee received a report which provided an updated Risk Management Policy and details of the Authority's updated Risk Register.

Jay Patel, Head of Finance, provided clarification in relation to the amber risks. In

particular that advice to be received from lawyers would determine how any bill payment mechanism ambiguity would be dealt with. He advised that the Committee's Independent Person had questioned contract payment mechanisms and whether the Authority had the ability to lower the rating. He indicated that legal issues of this type were outside the range of normal internal controls and processes.

**RESOLVED:** That (1) the updated Risk Management Policy be approved;  
(2) the content of the Risk Register, Appendix 2 to the report, be noted.

#### **42. Assurance Statements**

The Committee received the Assurance Statements from the Authority's Chief Officers and Senior Managers which formed part of the overall governance framework and supported the approval of the annual Statement of Accounts.

In response to a query raised by the Independent Person in relation to responsibility for anti-fraud and corruption, Jay Patel, Head of Finance, advised that although this was covered by a policy and his Assurance Statement, he would make it more explicit in next year's document.

**RESOLVED:** That the Assurance Statements attached at Appendix 1 to the report be noted.

#### **43. Statement of Accounts for the year ending 31 March 2017**

The Committee received the Authority's Statement of Accounts for the year ending 31 March 2017.

Jay Patel, Head of Finance, reported that the only notable change to the accounts previously considered by the Authority in June related to the valuation of properties. He advised that the valuations represented artificial gains and as the Authority did not rely on the valuation of assets to, for example, borrow money, it was less relevant. He indicated that the forecast was in line with outturn figures. Assurance had also been received from the Internal and External Auditors.

The Committee were advised that the Independent Person had submitted some comments as follows:-

- The increase in the amount of waste reused, recycled or recovered was should be highlighted;
- The decrease in the cost per tonne should be flagged up;
- Clarification In terms of the Authority's Reserves Policy was required;
- The usable reserves stated on p106 of £16.8m, did not tally with the narrative and graph on reserves on p96.

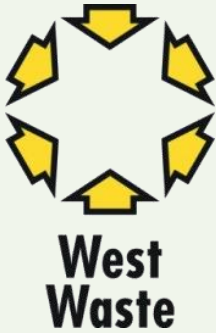
#### **Resolved to RECOMMEND (to the Authority)**

That the Statement of Accounts for 2016/17, as attached at pages 9-58 to the Authority's agenda papers, be approved.

**The meeting finished at 10.44 am.**

The minute taker at this meeting was Alison Atherton.

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# INTERNAL AUDIT

## Final Assurance Report 2017/18

### Staff Expenses including Petty Cash

15<sup>th</sup> December 2017

#### Overall IA Assurance Opinion:

**REASONABLE**

#### Recommendation Overview:

High Risk	0
Medium Risk	1
Low Risk	2
Notable Practice	0

#### Review Sponsor:

Jay Patel

Head of Finance & Performance

#### Report Distribution:

Xenab Khan

Finance Officer

Emma Beal

Managing Director

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## 1. Introduction

- 1.1 This risk based IA assurance review forms part of the 2017/18 IA Plan. **The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks in relation to staff expenses including petty cash.**

## 2. Background

- 2.1 West London Waste Authority (WLWA) will pay all reasonable expenses necessarily incurred by employees in the performance of their official duties. These expenses may arise because the employee is required to carry out duties, attend training courses, seminars, workshops, etc or to represent the Authority, or the Authority's interests, at a location away from their normal place of work or outside their normal hours of work.
- 2.2 All expense claims must be made electronically via 'I-Trent' the employee self service system. The claimant and the line manager approving them have a responsibility to ensure that all expenses are correctly submitted. Employees may claim for reimbursement of travel expenses, parking costs or congestion charge. In addition employees may claim subsistence allowance in accordance with the guidelines.

## 3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for Staff Expenses including Petty Cash. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**. An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment
Policies and procedures	<p><b>Reasonable Assurance:</b> Through testing we were able to verify that the Authority has guidance documents in place, in relation to expenses. There is an Expenses Policy and Expenses Guidance document, both of which are available to staff, via the intranet.</p> <p>It was identified during testing, that there is currently no guidance documentation in regards to petty cash maintained by the Authority.</p>
Validity of expense claims, including: <ul style="list-style-type: none"><li>Processing;</li><li>Authorisation, including segregation of duties; and</li><li>Payment.</li></ul>	<p><b>Limited Assurance:</b></p> <p><u>General Expenses</u></p> <p>We selected 40 expense claims, and sought to verify that they were claimed in line with the aforementioned Expenses Guidance and Policy. In 7 of the 40 cases sampled we were unable to reconcile the transactions to supporting receipts. In four of these seven instances, the supporting receipts were not provided, whereas in the remaining three instances the receipts provided did not reconcile to the claimed amount.</p> <p><u>Mileage</u></p> <p>We obtained a mileage expenditure report covering the 12 month period to August 2017. We randomly selected a sample of 25 mileage claims during this period to ensure they were processed in line with the Expenses Policy and Expenses Guidance. We were able to confirm, in 24 of the 25 cases sampled, that mileage claims were paid in line with the Policy. One exception was found to have been paid in error, having used the incorrect cost centre.</p>



Scope Area	IA Assessment
Petty Cash arrangements including; <ul style="list-style-type: none"> <li>• Records and documentation;</li> <li>• Accountability and authorisations;</li> <li>• Reimbursements</li> </ul>	<p><b>Reasonable Assurance:</b> As previously stated in there is currently no guidance documentation in regards to the management of the Authority's petty cash. The necessity for guidance document is somewhat negated by limited usage of petty cash with no withdrawals noted in the previous two years, questioning the need for ongoing management of petty cash.</p> <p>We performed our own reconciliation of the petty cash, and are pleased to state that the total amount maintained agreed. Nevertheless, we did note that the denominations held did not reconcile to the petty cash accounting sheet. Furthermore, we identified that £1 coins within the petty cash were no longer legal tender, taken out of circulation on 16<sup>th</sup> October 2017.</p>
Management Monitoring and Reporting	<p><b>Reasonable Assurance:</b> We are pleased to evidence that regular reporting of mileage claims is performed, produced on a monthly basis and detailing the expenditure for the previous period. However, there is no similar reporting mechanism for staff expenses including subsistence and other travel costs.</p>

3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

## 4. Detailed Findings and Conclusions

### 4.1 Policies and procedures

4.1.1 The Authority has guidance documents in place in relation to expenses, including an Expenses Policy, dated June 2013, and a supplementary Expenses Guidance document, dated April 2014. Both of these documents were found to be readily available to staff, via the authority's intranet. Upon review it was confirmed that these documents capture the principles, roles and responsibilities and eligibility criteria for claiming expenses. Furthermore, they providing the values that can be claimed for subsistence, mileage and overnight stays.

4.1.2 It was identified during testing, that there is currently no guidance documentation in regards to the Petty Cash that is maintained by the Authority however, petty cash transactions are minimal with no withdrawals in the previous two years and a recommendation has been raised in relation to this (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

### 4.2 Validity of Expense Claims - General Expenses

4.2.1 We obtained a historical expenses report from the iTrent system, displaying 12 months of transactions to September 2017, selecting a sample of 40 expense claims for testing to verify that they had been claimed in line with the Expenses Policy and guidance. We are pleased to confirm that all 40 transactions sampled were found to have been categorised and accounted for correctly.

4.2.2 As part of our testing we sought to reconcile the 40 transactions sampled to supporting valid receipts, as required by the expenses guidance document. However, we were unable to fully reconcile to supporting documentation in 7 of the 40 transactions. In 4 of the 7 exception cases this was due to an absence of receipts whilst each of the remaining three cases we were unable to reconcile the receipt provided to the claimed amount.

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- 4.2.3 In two of the four instances in which a receipt was not provided, the claimants had submitted alternative documentation (a bank statement), which was not deemed sufficient. Whilst this shows expenditure, in the absence of receipts, it is not possible to verify the validity of this claim. In the remaining two cases, Ealing's Payroll Officer was unable to locate the receipts. As a result, we once again were unable to confirm the legitimacy of the expense claims paid.
- 4.2.4 In the remaining three cases, receipts were provided, but did not reconcile to the transaction amount. Although within two of the three instances the variance was not material amounting to 1 pence each. The claimed value in both cases was £71.21, whereas the correlating receipts had transaction amounts of £71.20. In the remaining instance the transaction amount claimed, totalling £119.10 did not correctly tally with the receipts provided. The receipts provided were for a range of expenses such as travel (including taxis, London Underground and train travel) however, there is no clear identification of what the claim relates to and testing could not clearly identify where this total was derived from. As a result of weaknesses identified, we have raised a recommendation (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

### 4.3 Validity of Expense Claims - Mileage

- 4.3.1 We obtained a mileage expenditure report, covering a 12 month period to August 2017 from which we randomly selected a sample of 25 mileage claims to confirm they were processed in line with the Expenses Policy and accompanying guidance. We were able to confirm that, 24 of the 25 mileage claims sampled, were paid in line with the Policy. The exception identified (relating to £17.09) had been paid in error through cost centre 1337, relating to first aid allowance, and therefore fell outside the mileage policy. This was placed into this category by mistake, through a miscoding in period 5 and was subsequently rectified in period 6.
- 4.3.2 Upon review of our sample, it was noted that 5 mileage claims were paid outside the agreed three month timeframe, as stipulated in the Expenses Guidance. However, only one of the mileage claims was paid substantially outside the period, 117 days between the journey and the claim. It is noted that mileage expenses are paid through payroll and therefore payroll deadlines and pay dates should be taken into account when assessing this.

### 4.4 Petty Cash arrangements

- 4.4.1 As previously stated in paragraph 4.1.2, there is currently no guidance documentation in regards to the petty cash, although it was highlighted that there have been no withdrawals over the previous two years. We were informed that reconciliations are undertaken annually, which we were able to evidence in testing. A petty cash accounting document is stored within the petty cash box, and is reconciled against the accounts. This document is reconciled and agreed by external auditors and by the Head of Finance and Performance.
- 4.4.2 The petty cash accounting document captures the denominations of the cash kept in the petty cash box. We performed our own reconciliation during the audit and are pleased to state that the total amount maintained agreed. Nevertheless, we did note that the denominations did not reconcile. Upon further analysis, this occurred when the Bank of England issued a new polymer £5 note. These denominations were replaced, but the petty cash accounting document was not updated.
- 4.4.3 It is also noted that all £1 coins within the petty cash were no longer legal tender, each relating to the old coin which was taken out of circulation on 16th October 2017. A process should be undertaken to ensure that these are replaced with the new 12 sided £1 coin. Furthermore, given the level of usage of petty cash management should consider the ongoing need and usage of this facility (refer to **Recommendation 2** in the Management Action Plan at **Appendix B**).

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## 4.5 Monitoring and reporting

- 4.5.1 We are pleased to evidence that regular reporting of mileage claims is performed, produced on a monthly basis and detailing the expenditure for the previous period. However, there is no similar reporting mechanism for staff expenses including subsistence and other travel costs.
- 4.5.2 It is our opinion that this bi-monthly reporting for expenses, due to the low volume, would aid management and allow them to highlight any emerging trends or erroneous transactions, providing a further detective control and a recommendation has been raised accordingly (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).

## 5. Acknowledgement

- 5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Finance Team, whose advice and help were gratefully appreciated.

## 6. Internal Audit Contact Details

This audit was led by: Daniel Lovell  
**Internal Auditor**

This audit was reviewed by: Matteo Biondi, CIA  
**Principal Internal Auditor**

Thank you,



Muir Laurie FCCA, CMIIA  
**Head of Business Assurance**

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>Management should consider reviewing the robustness of the approval process for expenses to ensure the accuracy and validity of expense reimbursement. Management should ensure that appropriate mechanisms and checks are performed by the outsourced partner at Ealing Council, to ensure expenses are not paid without supporting documentation (para. ref 4.2.4).</p>	<p><i>In the event that there is a lack of supporting documentation, oversight and verification of expenditure there is increased exposure to fraud, misappropriation and / or theft.</i></p>	<p><b>MEDIUM</b> ●</p>	<p><b>TREAT</b></p>	<p>Managers will: 1) be reminded to check accuracy of claims and ensure appropriate evidence is provided by their staff before they approve expenses in iTrent 2) in the absence of evidence provide an explanation to the Head of Finance to consider and approve if deemed appropriate.</p>	<p>Senior Finance Officer  (Xenab Khan)  31<sup>st</sup> January 2018</p>

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**Good Practice Suggestions & Notable Practices Identified**

No.	Observation / Suggestion	Risk / Rationale	Risk Rating*
2	<p>Management should consider the continued need for a petty cash facility given its limited usage in the prior two years. If continued, documented procedures should be created for the management of the Petty Cash maintained by the Authority. This should reflect the annual sign off processes and should also ensure that denominations held reconcile to the Petty Cash Accounting sheet. Further, management should ensure the notes/coins stored are still legal tender (para ref 4.1.2 and 4.4.3).</p>	<p><i>Where appropriate policies and procedures are not in place there is a risk that operational duties are not undertaken effectively, efficiently, or consistently. This, in turn, could lead to reputational damage.</i></p>	<p><b>LOW</b> ●</p>
3	<p>It is our opinion that this bi-monthly reporting for expenses, due to the low volume, would be sufficient to mitigate any risk. It would also be able to highlight any emerging trends or erroneous transactions being processed through the expenses system (para ref 4.5.2).</p>	<p><i>There is a risk that fraudulent expense transactions could be verified through the system resulting in both reputational damage and financial loss to the Authority.</i></p>	<p><b>LOW</b> ●</p>

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### INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Authority's 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 <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Authority's 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 <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Authority's 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 <b>high risk</b> 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 C (cont'd)

### RISK RESPONSE DEFINITIONS

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

### INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
<b>HIGH</b> ●	The recommendation relates to a <b>significant threat</b> 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. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> ●	The recommendation relates to a <b>potentially significant threat</b> 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. <b>The risk requires management attention.</b>
<b>LOW</b> ●	The recommendation relates to a <b>minor threat or opportunity</b> 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. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> ●	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Authority. <b>The practice should be shared with others.</b>

### 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.

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# INTERNAL AUDIT

## Final Assurance Report 2017/18

### Compliance with the Scheme of Delegation

21<sup>st</sup> December 2017

#### Overall IA Assurance Opinion:

**SUBSTANTIAL**

#### Recommendation Overview:

High Risk	0
Medium Risk	1
Low Risk	2
Notable Practice	1

#### Review Sponsor:

Emma Beal

Managing Director

#### Report Distribution:

Jay Patel

Head of Finance & Performance

Ken Lawson

Contracts Manager

*Ownership of all final Internal Audit assurance reports rests with the relevant Review Sponsor.*

*This report and the work connected therewith are subject to the Terms and Conditions of the Contract between West London Waste Authority and London Borough of Hillingdon for the provision of Internal Audit services. This report is confidential and has been prepared for the sole use of West London Waste Authority.*

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## 1. Introduction

- 1.1 This risk based IA assurance review forms part of the 2017/18 IA Plan. The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks in relation to Compliance with the Scheme of Delegations.

## 2. Background

- 2.1 The powers specified in the Scheme of Delegation (SD) are delegated to Officers of the Authority. The Scheme does not define how each decision should be taken, nor does it attempt to list incidental matters that are a part of the Officers' everyday management functions. The Chair (or Vice Chair acting in that capacity in their absence) should be consulted on any matters that are considered politically sensitive. The SD is a public document, which was updated and approved in July 2016 and is available on the Authority's website, as are those documents that are to be used in conjunction with the SD.
- 2.2 The SD details the procedure to follow if urgent and prompt decisions are required, in a matter normally decided by the Authority (including a decision beyond the approved budget), which can admit no delay. In addition to this, the Scheme also stipulates the delegated powers of the Managing Director, Clerk and Treasurer; clarification on delegation to officers can be sought from the Clerk or Managing Director.
- 2.3 The SD forms part of the Authority's Standing Orders and should be read in conjunction with other parts. The SD is referenced in further Authority governance documents, for example the Financial Regulations. The Financial Regulations prescribe the responsibility of the Treasurer in approving the financial schemes of delegation.
- 2.4 All Officers who make decisions on behalf of the Authority should complete a Register of Interests form. The form asks Officers to declare any interests (personal or business related) that they may have, which could affect their independence and impartiality when making decisions on behalf of the Authority. The Public Contracts Regulations 2015 states that appropriate measures should be taken to "*effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators.*"

## 3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **SUBSTANTIAL** assurance over the key risks to the achievement of objectives for Compliance with the Schemes of Delegation. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix B**. An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment
Policies and procedures	<p><b>Substantial Assurance:</b> The Authority has several key policies and procedures in place which incorporate the arrangements for documenting and cascading delegated authority to Officers. These included the Authority's Contract and Procedure Rules and Financial Regulations, in addition to the documented scheme of delegated powers from the Authority to Officers. Both governing documents were found align with the SD to Officers, up to date, fit for purpose and effectively communicated to staff via the Intranet.</p> <p>An Officer Code of Conduct (CoC) is in place documenting the process for employees, as Officers of the Authority, to declare personal interests.</p>

Scope Area	IA Assessment
Officer's register of interest for all staff	<p><b>Reasonable Assurance:</b> We are pleased to report that appropriate mechanisms are in place to report potential interests. For Members, this is undertaken as part of Authority meetings, with no interests recorded on the register document detailing pecuniary interests.</p> <p>The Authority's Officer CoC requires employees, as Officers of the Authority, to declare personal interests with appropriate guidance deemed to be in place detailing required action of staff on an annual basis. However, it is our opinion that this process, whilst robust in design, is not embedded with no live register maintained to capture Officer declarations as they arise. A compensating control is in place whereby Senior Officers of the Authority submit an annual related party transaction declaration as part of the financial accounts.</p>
Scheme of Delegations, including a compliance testing of sample of authorisations	<p><b>Substantial Assurance:</b> Reviews of the SD take place annually; however, due to the nature and size of the business, it is not always necessary to make changes. The last update to the SD to Officers was made in July 2016, aligning with the update to the Financial Regulations and related to minor changes to post titles and the updated tenders and contract procurement rules.</p> <p>Appended to the Financial Regulations is the delegated financial authority template document, required to be completed to delegate financial authority from the Managing Director to an Officer. This was found to be effectively completed for each member of staff reporting into the Managing Director. However, upon review it was noted that this document does not incorporate delegated authority for HR or recruitment activity.</p> <p>Our sample testing of nine transactions confirmed, in each case sampled, that the approval was granted in line with the documented delegated financial authority. Furthermore, the recent review of staff expenses confirmed appropriate authorisation of expenditure.</p>
Evidence to support decisions	<p><b>Substantial Assurance:</b> Within all three systems reviewed (Finance, HR, Procurement) an effective management trail of evidence was found to be in place to support the decision. Further, a document retention policy is in place, detailed within Appendix 1 of the Financial Regulations, setting out the type of document and the length of time that the document must be retained. This includes the requirement to retain the annual scheme of financial delegation for employees for a period of three years.</p> <p>Finally, we are pleased to confirm that delegated decisions are reported to the Authority meeting through the Budget Monitoring report to members. Section 3 of the this report provides transparency over operational arrangements with the standard section summarising any significant financial decisions made by the Director and/or Chief Officers under the SD to Officers since those reported to the last Authority meeting. These are detailed within the Appendix and we consider this to be notable practice given the enhanced transparency provided to Members, enabling oversight and ability to hold management to account for decision making.</p>

Scope Area	IA Assessment
Agresso	<p><b>Substantial Assurance:</b> We undertook testing to ensure all decisions processed through the finance systems had been approved by permanent members of staff in accordance with delegated financial levels of authority.</p> <p>Access to the Agresso system was reviewed and it was confirmed that logical access controls were in place to restrict access the system. Examination of the Agresso system access rights highlighted that appropriate staff had access to the system, ensuring compliance with the SD. A series of transactions were reviewed to ensure that the correct approval had taken place in line with the schemes of delegation and delegated authority. All transactions were found to be in line with the SD.</p>

- 3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

## 4. Detailed Findings and Conclusions

### 4.1 Policies and procedures

4.1.1 We were able to evidence that the Authority has several key policies and procedures in place which incorporate the Authority's arrangements for documenting and cascading delegated authority to Officers. These included the Authority's Contract and Procedure Rules and Financial Regulations, in addition to the documented scheme of delegated powers from the Authority to Officers. Both documents were found to align with the SD to Officers, were up to date, fit for purpose and effectively communicated to staff.

4.1.2 The primary document is the SD to Officers, original approval by the Authority in June 2014, were last updated in July 2016 in coordination with the update to the Financial Regulations. Upon review we found the SD to Officers to include sufficient detail in relation to those duties, tasks, financial thresholds and powers delegated to the Managing Director, the Clerk and the Treasurer. Further, sufficient guidance is included within the Financial Regulations to supplement the SD to Officers, documenting processes to control the financial SD, identifying those staff authorised to act on the Managing Director's behalf together with the limits of their authority.

### 4.2 Officer's register of interest for all staff

4.2.1 Declaring interests, whether they are pecuniary or non-pecuniary is a demonstration of integrity. We confirmed that this process forms part of the annual statement of accounts process, where Members and Senior Management sign a declaration of related party transactions to be presented alongside the accounts. Testing of this process undertaken in March 2017 for the 2016/17 accounts confirmed that all the Member's and Senior Officers had submitted their forms. We verified, through analysis of the relevant minutes that declarations of interests were sought within Authority and Audit Committee meetings with no declarations made. The nil returns are recorded on a register for tracking purposes.

4.2.2 We verified that the Authority has an up to date CoC in place, dated October 2015, to support the maintenance of the highest standards of conduct by employees, identify corporate standards and help all employees to act in a way which upholds the Authority's standards and, at the same time, protect them from criticism, misunderstanding or complaint. The CoC forms part of each Officer's contract of employment.

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4.2.3 Our review of the CoC confirmed it requires employees, as Officers of the Authority, to declare personal interests with appropriate supporting guidance in place within the CoC for staff to complete this on an annual basis. However, it is our opinion that this process, whilst robust in design, is not embedded with limited records to confirm the annual declaration return is adhered to. Further, no summary register is maintained capturing all Officer declarations throughout the authority, including documenting conflicts as they arise throughout the year. Subsequently, we have raised a recommendation to strengthen the control framework with this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

### 4.3 Scheme of Delegation, including a compliance testing of sample authorisations

4.3.1 Review of the SD take place annually; however, due to the nature and size of the business, it is not always necessary to make changes. The last update to the SD to Officers was made in July 2016, aligning with the update to the Financial Regulations and related to minor changes to post titles and the updated tenders and contract procurement rules.

4.3.2 It was confirmed that these changes were made by the Clerk, Chief Officers and Senior Managers and approved by the Clerk who, in line with the SD, has delegated authority to approve minor changes. This was found to be appropriately documented. Furthermore, a central point of contact for all governance activity is in place, with the Head of Finance and Performance performing the role.

4.3.3 As previously mentioned, appended to the Financial Regulations is the document required to be completed to delegate financial authority from the Managing Director to an Officer. This document captures authority and financial thresholds for financial, procurement invoice and expenses and requires sign off by the Managing Director. This was found to be effectively completed for each member of staff reporting into the Managing Director. However, upon review it was noted that this document does not incorporate delegated authority for HR or recruitment activity and a low priority recommendation has been raised to address this (refer to **Recommendation 2** in **Appendix B**).

4.3.4 The approval levels within the Procurement system were reviewed to ensure accordance with the SD and delegated financial authority. We also sought to confirm that no members of temporary staff were provided with access to approve contractual or procurement decisions. We are pleased to report that a series of rules designed to support the delivery of the Authority's Annual Procurement Plan are set out within the Contract and Procurement Rules.

4.3.5 The procurement process is conducted through Ealing Council's services, and there is only one approval level set up within the system. This singular approver, 'AppleV1' is set up to approve all decisions under £1million. Because the employees at the Authority do not have access to the procurement system, to approve payments, this control is adequate in relation to these risks. However, due to the nature of this control framework, additional testing was undertaken to ensure all decisions processed through the procurement system had been approved by permanent WLWA Officers before being sent across to the London Borough of Ealing for processing. Our sample testing of nine transactions confirmed, in each case sampled, that the approval was granted in line with the documented delegated financial authority.

4.3.6 All contracts over the value of £25k must be added to the contracts register, as per the requirements set out within the Contract and Procurement rules. Testing on the contracts register was completed and showed that it was in place and up to date. Three contracts, from 2016 and 2017 were selected and reviewed against the Schemes of Delegation and the declaration of interests register. As there are no declared interests, no conflicts were identified. However, initially we were unable to obtain clear approval, as per the Schemes of Delegation. Approval has since been obtained, retained on a previous member of staff's email account however an appropriate control framework should be put in place to capture authorisation moving forward (refer to **Recommendation 3** in **Appendix A**).

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#### 4.4 Evidence to Support Decisions

- 4.4.1 Within all three systems reviewed (Finance, HR, Procurement) an effective management trail of evidence was found to be in place to support the decision. Further, a document retention policy is in place, detailed within Appendix 1 of the Financial Regulations. This document sets out the type of document and then additionally details how long the document must be retained; e.g. Risk registers must be retained for seven years. This includes the requirement to retain the annual scheme of financial delegation for employees for a period of three years.
- 4.4.2 The SD to Officers includes a series of financial requirements, a sample of which were reviewed as part of testing. We were able to confirm that the 2016/17 annual accounts were appropriately signed off by the Treasurer. However, we were informed by the Head of Finance and Performance that no amounts had been written off over the previous year and no assets had been disposed of. We were therefore unable to test these areas due to lack of activity.
- 4.4.3 Finally, we are pleased to confirm that delegated decisions are reported to the Authority meeting through the Budget Monitoring report to members. Section 3 of this report provides transparency over operational arrangements with the standard section summarising any significant financial decisions made by the Director and/or Chief Officers under the SD to Officers since those reported to the last Authority meeting. These are detailed within the Appendix to this report and we consider this to be notable practice given the enhanced transparency provided to Members, enabling oversight and ability to hold management to account for decision making (refer to **Notable Practice 4** in **Appendix B**).

#### 4.5 Agresso

- 4.5.1 We undertook testing to ensure all decisions processed through the finance systems had been approved by permanent members of staff in accordance with delegated financial levels of authority. Access to the Agresso system was reviewed and it was confirmed that logical access controls were in place to restrict access to the system. Examination of the Agresso system access rights highlighted that appropriate staff had access to the system, ensuring compliance with the Scheme of Delegation. A series of transactions were reviewed to ensure that the correct approval had taken place in line with the schemes of delegation and delegated authority. All transactions were found to be in line with the SD.

### 5. Acknowledgement

- 5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Finance team, whose advice and help were gratefully appreciated.

### 6. Internal Audit Contact Details

This audit was led by: Daniel Lovell  
**Internal Auditor**

This audit was reviewed by: Martyn White, CMIIA CIA  
**Senior Internal Audit Manager**

Thank you,



Muir Laurie FCCA, CMIIA  
**Head of Business Assurance**

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>Management should consider ensuring that the annual declaration exercise for all staff, required by the code of conduct is completed.</p> <p>This should be documented within a register of Officer pecuniary interests to identify any business / commercial / financial interests held which might give rise to a potential conflict of interest.</p> <p>This register should be maintained in addition to the annual related party declaration completed for the annual statement of accounts.</p> <p>Proactive work is undertaken to increase awareness in the Declaration of Interests Register to ensure that Officers are proactive in declaring their interests in a timely manner (para.ref 4.2.3).</p>	<p><i>Without sufficient awareness and knowledge of interests, there is an increased risk that potential conflicts may arise which will not be appropriately recorded.</i></p> <p><i>If materialised this may highlight a lack of transparency and in turn could lead to reputational damage to the Authority or the Authority's legal position on for example a contract tender being compromised.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<p><b>TREAT</b></p>	<p>Management will raise awareness of the issues and ensure all employees complete an annual declaration as part of the normal year end accounting process.</p> <p>Management will ensure a register is maintained.</p>	<p>30 April 2018</p>

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**Good Practice Suggestions & Notable Practices Identified**

No.	Observation/ Suggestion	Rationale	Risk Rating
2	Management should consider updating the delegated financial authority template document appended to the Financial Regulations to incorporate delegated authority for HR operations (para.ref 4.3.3).	<i>There is an increased likelihood that decisions and/or authorisations made do not comply with the Authority's approved delegated authority. This would impact the effective decision making of the Authority with potential for challenge and reputational implications.</i>	<p><b>LOW</b></p> <p>●</p>
3	Management should consider putting in place an appropriate system to ensure appropriate maintenance and retention of contract documentation and associated approval (para.ref 4.3.6).	<i>Without sufficient records and documentation in place, there is an increased likelihood that contractual decisions and/or authorisations made do not comply with the Authority's approved delegated authority.</i>	<p><b>LOW</b></p> <p>●</p>
4	Delegated decisions are reported to the Authority meeting through the Budget Monitoring report to members. Section 3 of the this report provides transparency over operational arrangements with the standard section summarising any significant financial decisions made by the Director and/or Chief Officers under the SD to Officers since those reported to the last Authority meeting. These are detailed within the Appendix to this report and we consider the enhanced transparency provided to Members, enabling oversight and ability to hold management to account for decision making to be good practice (para.ref 4.4.3).	<i>The activity reflects current good practice or is an innovative response to the management of risk.</i>	<p><b>NOTABLE PRACTICE</b></p> <p>●</p>



## INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Authority's 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 <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Authority's 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 <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Authority's 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 <b>high risk</b> 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 C (cont'd)

### RISK RESPONSE DEFINITIONS

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

### INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

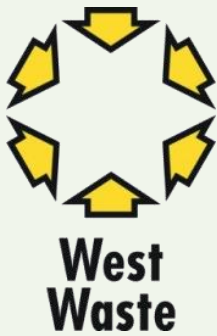
Risk	Definition
<b>HIGH</b> <span style="color: red;">●</span>	The recommendation relates to a <b>significant threat</b> or opportunity that impacts the Authority's corporate objectives. The action required is to mitigate a substantial risk to the Authority. In particular it has an impact on the Authority's reputation, statutory compliance, finances or key corporate objectives. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> <span style="color: yellow;">●</span>	The recommendation relates to a <b>potentially significant threat</b> 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. <b>The risk requires management attention.</b>
<b>LOW</b> <span style="color: green;">●</span>	The recommendation relates to a <b>minor threat or opportunity</b> 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. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> <span style="color: blue;">●</span>	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Authority. <b>The practice should be shared with others.</b>

### **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.

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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# INTERNAL AUDIT

## Final Assurance Report 2017/18

### Budgetary Control

11<sup>th</sup> January 2018

Overall IA Assurance Opinion:

**SUBSTANTIAL**

Recommendation Overview:

High Risk	0
Medium Risk	0
Low Risk	4
Notable Practice	0

Review Sponsor:

Emma Beal

Managing Director

Final Report Distribution:

Jay Patel

Head of Finance and Performance

Rimante Luyten

Senior Accountant

*Ownership of all final Internal Audit assurance reports rests with the relevant Review Sponsor.*

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## 1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was requested by management to be undertaken as part of the 2017/18 annual IA plan. **The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks surrounding Budgetary Control:**
- If budget planning and monitoring processes are absent or not undertaken effectively there is a risk that funds are not utilised effectively, leading to an inability to provide key services. This may also lead to increased potential for poor management decision making, whilst increasing exposure for overspend or fraud to occur;
  - If roles and responsibilities relating to budgetary control are not clearly defined, there is a risk that there could be poor management oversight of income and expenditure. As a result, budget variances and budget pressures may not be identified effectively. Poor monitoring of actual budget positions could impact upon the budget position and lead to poor budgetary control;
  - In the event the Authority does not follow appropriate accounting practices for public finance, there is an increased likelihood of non compliance with legislation resulting in reputational damage and potentially leading to prosecution;
  - If there are inadequate monitoring and control arrangements in place, this could lead to unidentified and inappropriate use of public money and result in unmanageable overspends. This would directly impact the Authority's ability to effectively and efficiently monitor and reconcile budgets on Agresso with increased potential for budgets with a high degree of volatility or risk to be overlooked;
  - If significant variances, virements and budget pressures are not identified, properly reported and appropriately approved this could result in a loss of control over budgeting and actual spends. This may also lead to an inaccurate and imprecise representation of the Authority's overall financial position; and
  - If management information is not produced timely and accurately or used ineffectively, this could lead to a lack of oversight, scrutiny and challenge on budget monitoring and control performance. This could result in poor management decision making and failure to deliver key services.

## 2. Background

- 2.1 The Authority is responsible for approving and setting the Budget, Governance and Policy Framework, and any subsequent variations. The Treasurer and Director are responsible for taking in-year decisions on resources and priorities in order to deliver the Budget within the financial limits set by the Authority. An annual procurement plan and the Authority Annual Business Plan includes proposals for delivering financial savings, key performance indicators, service and staff development and improvement.
- 2.2 Budgetary Control is an important aspect of financial planning and operations within the authority and is required to ensure that residents of the constituent boroughs continue to receive value for money and the Authority operates efficiently, particularly in light of difficult economic conditions created by Government measures to reduce public expenditure.
- 2.2 An important part of budgetary control is budget monitoring, the process of comparing actual and forecast expenditure and income throughout the financial year. It involves identifying main variances, pressures and risks and taking prompt action to prevent budget pressures from arising or to bring pressures that have arisen back under control. Monitoring budgets and managing financial and accounting controls are key activities of the Authority. It is required to ensure effective management of resources within departments and to produce an accurate overall position statement of the Authority's financial position on a regular basis throughout the year.

- 2.3 Budget holders, who have delegated control over a specific budget, must carry out careful monitoring of the actual positions and be aware of wider factors which may impact on the budget position. This includes the early identification of budget variances to ensure that these can be addressed within budget tolerances.

### 3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **SUBSTANTIAL** assurance over the key risks to the achievement of objectives for Budgetary Control. Definitions of the IA assurance levels and IA risk ratings are included at [Appendix C](#). An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment of WLWA
Strategy, Policy and Procedures	<p><b>Substantial Assurance</b> - The Authority's Business Plan 2017 - 2020, approved in March 2017, sets out under how the Authority will develop its services over the period of the Plan. It was confirmed that the financial provision for current year business plan activities were included within and aligned to the approved 2017-2018 budget.</p> <p>Appropriate policies were found to be in place covering all financial accountabilities in relation to the running of the Authority, in particular budget management, monitoring and control.</p> <p>The Authority's Financial Regulations (FRs) provide detailed instructions to assist officers with delegated authority to carry out their financial duties in a proper manner, providing the framework within which the Authority manages its finances.</p>
Roles, Responsibilities and Authorisations	<p><b>Substantial Assurance</b> - We are pleased to report that roles and responsibilities for the Treasurer, Managing Director, Clerk and Budget Holder are detailed within the FRs and Scheme of Delegations.</p> <p>A rigorous annual budgeting process with regular scrutiny through budget monitoring and reporting to the Authority was evidenced. The draft 2017/18 budget was discussed in November at the Chief Officers Budget Challenge meeting prior to being presented to the constituent boroughs and the Authority meeting in December 2016.</p>
Segregation of duties	<p><b>Substantial Assurance</b> - There are currently four budget managers within the Authority - the Contracts budget, Corporate Services budget, Operations budget and Waste Minimisation budget.</p> <p>Within the budget reports that go to the Authority meetings, all significant financial decisions are made under the scheme of delegations.</p> <p>The 2017/18 IA review of Compliance with Scheme of Delegation reviewed this area in depth and provided substantial assurance.</p>
Virements	<p><b>Substantial Assurance</b> - The rules and authorisation limits for virements are appropriately set out under Section 19 of the Authority's FRs</p> <p>There have been no budget virements undertaken this financial year to date and we therefore discussed the process. It is our opinion that the robustness of this process could be enhanced.</p>

Budget Monitoring and Management Information	<p><b>Substantial Assurance</b> - Following approval by the Authority, the budget is loaded into the Agresso system by the system administrators, Ealing Borough Council. Monthly budget reporting are produced, utilising data form Agresso, but transposed onto spreadsheet to facilitate budget monitoring.</p> <p>We sought to verify whether regular meetings take place between the budget holders and accountants. We were informed that budget holders are met with informally almost monthly, however these meetings are not minuted.</p> <p>Budget monitoring reports are prepared for the Authority meetings, providing an update on the financial position at the end of each period. We were able to confirm that budget reports were presented to each meeting, with actions arising appropriately recorded within meeting minutes.</p>
Variance Analysis and Budget Pressures	<p><b>Substantial Assurance</b> - In order to facilitate effective budget monitoring, the authority profile budgets on a 1/12<sup>th</sup> basis to enable variance identification and analysis. A sample of six monthly budget reports were selected to verify whether the reports were available contained commentary regarding variances. High level commentary was noted in all reports where a significant overspend was apparent. Reasoning was provided as to why this is the case but action to be taken to forward was not stated. This will not always be necessary or applicable in all instances where, for example, overspend is a result of seasonal variations. The reports provide a breakdown of the budgets into significant detail, but variances within these are not commented on. .</p>

- 3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

## 4. Detailed Findings and Conclusions

### 4.1 Strategy, Policy and Procedures

- 4.1.1 The joint municipal waste management strategy (JMWMS) agreed by WLWA and the six boroughs provides the vision for the Authority's service delivery to achieve their purpose. The current strategy was first agreed in 2006 with an addendum agreed in 2009 as part of the preparations for the residual waste services procurement and expires in 2020. The JMWMS is the foundation for the WLWA business plan 2017-20 and the associated objectives within.
- 4.1.2 The Authority's Business Plan 2017 - 2020, approved in March 2017, sets out under three key themes how the Authority will develop its services over the period of the Plan. It was confirmed that the financial provision for current year business plan activities were included within the approved 2017-2018 budget. The Medium and Long Term Financial Plan (MLTFP) considers the financial picture over the longer term, identifying the key factors (assumptions) that impact on the Authority's financial position over the medium and long term. The financial modelling performed helps inform the annual budget setting process and was confirmed to be presented to the Authority alongside the draft budget for 2017/18.



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- 4.1.3 Appropriate policies were found to be in place covering all financial accountabilities in relation to the running of the Authority, in particular budget management, monitoring and control. The Authority has Financial Regulations (FRs) in place, which were last approved by the Authority in July 2016. The FR is binding on all employees and provides detailed instructions to assist officers with delegated authority to carry out their financial duties in a proper manner. Further, they provide the framework within which the Authority manages its finances.
- 4.1.4 It was confirmed that Section 40 of the FRs state that the required format of the draft budget, including the requirement for it to be approved. Our verification testing confirmed that the draft budget, presented to the Authority in December 2016, contained reference to these items, confirming compliance with the requirements of the FRs.
- 4.1.5 The FRs are communicated to all staff members via the Authority's intranet however, upon review, it was noted that the December 2015 version was communicated rather than the updated version approved by the Authority in July 2016. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix B**).

## **4.2 Roles, Responsibilities and Authorisations**

- 4.2.1 The Scheme of Delegations for the Authority is available on the Authorities website, containing detail as to the responsibilities and processes delegated from the Authority to the Managing Director, Clerk and Treasurer. Authorisation levels are set out within the Scheme of Delegations, including that the Managing Director is responsible for providing a cost effective use of agreed budgets, agree settlement amounts with the Chair, dispose of assets up to £100k. The Treasurer has the authorisation to write off amounts up to £25,000 but less than £100k. Compliance with the Scheme of Delegations was subject to Internal Audit review in 2017/18, obtaining substantial assurance.
- 4.2.2 We are pleased to report that roles and responsibilities for the Treasurer, Managing Director, Clerk and Budget Holder are detailed under sections 13 to 24 of the FRs which, if fully adhered to, will help to mitigate key risks. The FRs stipulates the Treasurer's role is to provide financial information and to prepare the review budget. Budget holders are stated as responsible for the financial affairs of the service area and to monitor and review spend at regular intervals. The financial regulations state the authority is responsible for approving and setting the budget, governance and policy framework and any subsequent variations.
- 4.2.3 During testing, we sought to verify that roles and responsibilities of the budget holders are defined. The job description of the Senior Contract Manager for the Authority was provided which was confirmed to contain responsibilities in relation to budgets including overseeing and regular monitoring. It was noted that the job description does not contain much detail expected of a budget holder. A compensating control is however in place, with the financial delegations document appended to the FRs. This document is required to be completed to delegate financial authority from the Managing Director to an Officer, clearly detailing the requirements of the budget holder. This document was found to be effectively completed for each member of the four budget holders.
- 4.2.4 Upon analysis for the reinforcement of roles and responsibilities via training we were informed that training was last provided to budget holders 3-4 years ago. We were advised that specific training was provided to the Managing Director upon their induction. As there have been no changes to budget holders, the limited training provided was deemed acceptable given the frequency of meetings with budget holders providing sufficient guidance and assistance to the budget holders.
- 4.2.5 There is a rigorous annual budgeting process and regular scrutiny through budget monitoring and reporting to the Authority. The annual budget is discussed in November at the Chief Officers Budget Challenge meeting. The agenda for this meeting was provided,

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highlighting the discussion of each budget held by the budget managers for scrutiny. The draft budget for 2017/18 went to all chief officers as well as the constituent boroughs prior to being presented, in draft, to the Authority meeting in December 2016. This report also contains responses from each of the borough partners.

### **4.3 Segregation of duties**

4.3.1 Consideration has been made as there are currently four budget managers within the Authority in relation to the Contracts budget, Corporate Services budget, Operations budget and Waste Minimisation budget. Within the budget reports that go to the Authority meetings, all significant financial decisions are made under the scheme of delegations. The 2017/18 IA review of Compliance with Scheme of Delegation reviewed this area in depth and provided substantial assurance.

### **4.4 Virements**

4.4.1 The rules and authorisation limits for virements are set out under Section 19 of the Authority's FRs, stipulating that budget holders are to seek approval from the Head of Finance and Performance to transfer resources between budgets. Further, where the amount is more than £10,000 and/or more than 10% of the original budget, approvals should be sought from the Treasurer.

4.4.2 We were informed by the Senior Accountant that there have been no virements between any of the budgets to date for this financial year. We therefore discussed the process of a virement and, in order to update the Agresso system, once approval is sought from the Head of Finance and Performance/Treasurer, Ealing Council would be contacted as they currently upload the budgets onto Agresso and undertake system administration. It was felt that the robustness of this process could be enhanced and, as a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix B**).

### **4.5 Budget Monitoring and Management Information**

4.5.1 Following approval by the Authority, the Authority budget is loaded into the Agresso system by Ealing Borough Council, as the system administrators. Monthly budget reporting are produced, utilising data from Agresso, but transposed onto spreadsheets to facilitate budget monitoring. Therefore, the Authority utilise data outside of Agresso, for budget monitoring rather than specific reports from the system source data to identify and highlight variances to budget. Whilst we did not identify any significant variances via this process, we have raised a low risk recommendation to aimed at mitigating the minor risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).

4.5.2 A budget timetable is set and was found to be adhered to enable regular budget monitoring information to be provided. The timetable was provided by the Senior Accountant and was found to appropriately record the dates as to when information is due from constituent boroughs and when reports are to be issued to budget holders and the Authority meetings.

4.5.3 Budget monitoring reports are prepared for the Authority meetings which take place five times per year, providing an update on the financial position of the Authority at the end of each period. Budget monitoring reports are available on the Harrow Council website, along with minutes of the meetings and we were able to confirm that budget reports were presented to each meeting, with actions arising appropriately recorded within meeting minutes.

4.5.4 For the period in which an authority meeting takes place, a detailed budget report is produced for Members detailing the previous period, providing an update on the financial position of the authority, the key operational key performance indicators and delegated financial decisions. The reports were found to contain a high level summary of the

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Authority's financial position, with a detailed breakdown appended containing a commentary of any variances to the approved budget. The actual spend against the budget within the period is compared with that forecasted for the year, providing sufficient detail for the stakeholders to review the financial position of the Authority.

#### **4.6 Variance Analysis and Budget Pressures**

- 4.6.1 In order to facilitate effective budget monitoring, the authority profile budgets on a 1/12<sup>th</sup> basis to enable variance identification and analysis. A sample of six monthly budget reports were selected to verify whether the reports were available contained commentary regarding variances. High level commentary was noted in all reports where a significant overspend was apparent. Reasoning was provided as to why this is the case but action to be taken to forward was not stated. This will not always be necessary or applicable in all instances where, for example, overspend is a result of seasonal variations. The reports provide a breakdown of the budgets into significant detail, but variances within these are not commented on. Therefore we have raised a recommendation to address this (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.5.2 During testing, we sought to verify whether regular meetings take place between the budget holders and accountants. We were informed that budget holders are met with informally almost monthly, however these meetings are not minuted. Due to the scale of operations at the Authority, with only four budget holders, these meetings are considered adequate to provide sufficient oversight and guidance to budget holders.

### **5. Acknowledgement**

- 5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Head of Finance and Performance and the Senior Accountant, whose advice and help were gratefully appreciated.

### **6. Internal Audit Contact Details**

This audit was led by: Huda Al-sadi, CIA  
**Senior Internal Auditor**

This audit was reviewed by: Martyn White, CMIIA CIA  
**Senior Internal Audit and Counter Fraud Manager**

Thank you,



Muir Laurie FCCA, CMIIA  
**Head of Business Assurance**

**Management Action Plan**

<b>No.</b>	<b>Recommendation</b>	<b>Risk</b>	<b>Risk Rating</b>	<b>Risk Response</b>	<b>Management Action to Mitigate Risk</b>	<b>Risk Owner &amp; Implementation date</b>
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*No high or medium risk recommendations raised*

**Good Practice Suggestions & Notable Practices Identified**

No.	Observation/ Suggestion	Rationale	Risk Rating
1	The updated Financial Regulations should be uploaded on the Authority Intranet site to enable all staff to be working to current Policy (para ref 4.1.4).	<i>There is an increased likelihood that staff members are unaware of their roles and responsibilities in relation to financial administration, including budgetary control.</i>	<b>LOW</b> ●
2	Management should consider enhancing the virement process to ensure appropriate transparency, including evidencing that appropriate authorisation has been obtained in line with the scheme of delegations, prior to communicating to LB Ealing for processing. Consideration should be taken to include any virements within the budget monitoring reports presented to Authority meetings, requesting approval where appropriate (para ref 4.4.2).	<i>Without an established procedure, there is an increased likelihood that virements are processed between budgets without sufficient transparency or obtaining the required approval as stipulated within the Financial Regulations.</i>	<b>LOW</b> ●
3	Management should consider the benefits of utilising Agresso system generated reports for budget monitoring purposes, minimising duplication of effort via the current excel process (para ref 4.5.1).	<i>The current process duplicates effort whilst increasing the likelihood of errors due to human interaction.</i>	<b>LOW</b> ●
4	Management should consider including commentary within the budget reports as to variances within detailed budgets to enhance information provided to stakeholders (para ref 4.6.1).	<i>Where budget commentary is not appropriately detailed there is an increased likelihood and adequate management trail of commentary as to variances in budget is not maintained, impacting the effectiveness of budget monitoring.</i>	<b>LOW</b> ●

### INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Authority's 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 <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Authority's 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 <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Authority's 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 <b>high risk</b> 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 C (cont'd)

### RISK RESPONSE DEFINITIONS

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

### INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
<b>HIGH</b> ●	The recommendation relates to a <b>significant threat</b> 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. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> ●	The recommendation relates to a <b>potentially significant threat</b> 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. <b>The risk requires management attention.</b>
<b>LOW</b> ●	The recommendation relates to a <b>minor threat or opportunity</b> 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. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> ●	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Authority. <b>The practice should be shared with others.</b>

### 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.

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.





# INTERNAL AUDIT

## Final Assurance Report 2017/18

### Contract Management

15th January 2018

Overall IA Assurance Opinion:

**LIMITED**

Recommendation Overview:

High Risk	0
Medium Risk	2
Low Risk	4
Notable Practice	0

Review Sponsor:

Emma Beal

Managing Director

Report Distribution:

Jay Patel

Head of Finance & Performance

Ken Lawson

Senior Contracts Manager

Ownership of all final Internal Audit assurance reports rests with the relevant Review Sponsor.

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## 1. Introduction

- 1.1 This risk based IA assurance review forms part of the 2017/18 IA Plan. The purpose of this review is to provide assurance to the West London Waste Authority (WLWA) Officers Team and the Audit Committee over the key risks in relation to Contract Management.

## 2. Background

- 2.1 Outsourcing can be an effective cost saving strategy which also delivers a high quality service to end users. Other benefits to outsourcing include greater access to resources, economies of scale, moving service delivery closer to the end service user and freeing up internal resources to focus on the organisations core business. However, there are also significant risks attached to outsourcing services such as reduced control of service delivery and quality, particularly when contracting out front line services which are difficult to measure and assess, or when a complex contract is required. The materialisation of such risks is normally compounded into financial losses and reputational damage for the contracting organisation.
- 2.2 Contract management is the process which facilitates the monitoring of contract delivery to ensure both parties to a contract meet their contractual objectives and obligations. It is a key control to ensure that risks to outsourcing agreements are effectively mitigated. However, effective contract management extends beyond contract monitoring and involves building good working relationships with the providers, anticipating future needs, dispute resolution and driving continuous improvements in performance and service delivery.
- 2.3 During a discussion with the Senior Contracts Manager, we have selected the following three contracts for testing:

Contracted Party	Annual Value	Contract Start Date	Contract End Date
Viridor Waste Management Ltd (VWML)	£10,400,000	2009	2034
Countrystyle Recycling Ltd (CRL)	£750,000	2014	2018
West London Composting Ltd (WLCL)	£950,000	2014	2018

- 2.4 This review will specifically focus on the management of contract delivery for contracts that are currently operational. Pre-contract and post contract activities will be excluded from the scope of this review and thus wider procurement processes such as contract tendering, contract strategy, contract terms, value for money or contract renewal/extensions will not be examined.

## 3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **LIMITED** assurance over the key risks to the achievement of objectives for Contract Management. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**. An assessment for each area of the scope is highlighted below:

Scope Area	IA Assessment
Roles and Responsibilities	<b>Reasonable Assurance:</b> The Authority has documented Contracts & Procurement Rules (CPR), dated July 2016, supporting the delivery of the Annual Procurement Plan. It was established that there is limited guidance within the CPR, in addition to an absence of operational guidance providing a

Scope Area	IA Assessment
	<p>clear outline of how contract management is practiced within the organisation post contract award.</p> <p>We reviewed each of the three contracts sampled to confirm that roles and responsibilities for contract management and administration are suitably documented. It was noted that the VWML contract provided a concise overview of the "authorised representative" role but the other two sample contracts sampled failed to define the Contract Manager duties.</p>
Contract Administration	<p><b>Limited Assurance:</b> As part of our testing, we sought to review the contracts and verify the inclusion of key clauses. All three contracts sampled contained a "Force Majeure" clause, permitting alternative providers to be sourced if the supplier could not deliver the contracted service due to unforeseen circumstances. However, it is our opinion that the Authority would benefit from documenting the supplier's duty to mitigate their risk exposure by maintaining up to date, frequently reviewed and tested Business Continuity Plans (BCPs) and Business Disaster Recovery Plans (BDRPs), as per the Authority's CPR (Rule 7.3.10).</p> <p>Unfortunately, we could not locate a Service Level Agreement (SLA) in any of the 3 contracts sampled. We appreciate that the contract and the service specification defines the service expected but it is our opinion that the current Key Performance Indicators (KPIs) to administer each contract were not sufficient mechanisms to enable WLWA to undertake effective contract management activities.</p> <p>Examination of each of the three contract documents confirmed the inclusion of a contract clause for liquidated damages, however we were surprised to see that, within the contracts for both WLCL and CRL, the contract clause (24) titled "Liquidated Damages" was stated as "Clause not used". This is despite Clause 24 being referenced as a tool to use under "Clause 4- Failure of Contractor to Carry Out Services". Further, it is our opinion that the VWML contract also fails to include measures for redress should the supplier underperform.</p>
Contract Management	<p><b>Limited Assurance:</b> Our ability to test contract management activities was limited by the aforementioned lack of guidance and absence of contractual clauses and requirements surrounding SLAs, KPIs, contract meetings and performance reporting.</p> <p>It was established that one contract stipulated a meeting to take place quarterly and we are pleased to report that meetings take place on this frequency. Both of the remaining contracts sampled fail to capture the requirement of contract management meetings however, due to good relations established with these suppliers, annual meetings were found to take place. We are also pleased to report that appropriate meeting governance was evidenced with all meetings having documented agendas, minutes taken and attendees recorded. However, it is our opinion that controls surrounding the robustness of recording, tracking and monitoring of action points could be considerably enhanced.</p> <p>The VMWL contract, despite being the largest contract in our sample, does not require the supplier to produce any</p>

Scope Area	IA Assessment
	<p>performance reports, instead providing regular weighbridge data, assisting with the verification of invoices. We appreciate there is currently a good working relationship in place but the absence of KPIs and significant performance data and reports for such a large contract sum is of concern.</p> <p>The other two contracts tested, WLCL and CRL, also failed to provide regular performance reports. We understand the importance of the tonnage data being supplied by all 3 suppliers, as they help verify the invoice price but we saw no evidence of weighbridge data being spot-checked, using the original receipts. Furthermore, we would expect the contractors to supply annual calibration certificates and performance reports which analyse how efficiently they're operating, identifying bottle-necks or processes which aren't working as effectively.</p>
Management Information and Reporting	<p><b>Limited Assurance:</b> As mentioned above there is limited management information and reporting from each of the three contracts sampled with recommendations raised accordingly to enhance the oversight role. The oversight role is performed by the Senior Contracts Manager who demonstrated a good knowledge of the suppliers and their employees/ authorised representatives. The Senior Contracts Manager was less familiar with the contractual terms and conditions for WLCL and CRL but this is understandable given that they oversee £44.6 million of spend and that WLCL and CRL represent 2.1% and 1.6% of this spend respectively; by comparison VWML represents 23.2%. There are a total of 22 contracts within the Senior Contracts Manager's remit.</p>

3.2 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting and are set out in section four of this report. The key IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

## 4. Detailed Findings and Conclusions

### 4.1 Roles and Responsibilities

4.1.1 The Authority has documented Contracts & Procurement Rules (CPR), dated July 2016, supporting the delivery of the Annual Procurement Plan. The CPR provide the governance structure within which the Authority may procure Works, Supplies and services, setting out the rules that are required to be followed when undertaking procurement activity. It was confirmed that the CPR detail the roles and responsibilities of all officers undertaking procurement, in particular the Managing Director and the individual designated as the Responsible Officer.

4.1.2 It was established that there is limited guidance within the CPR, in addition to an absence of operational guidance, providing a clear outline of how contract management is practiced within the organisation post contract award. The only contract management reference within the CPR is rule 7.3.12 requiring the need for "a framework for the management of the Contract [to be] put in place prior to Contract award" but with the absence of supporting guidance there is little detail on what would constitute an effective framework. The risk posed is mitigated somewhat by the dedicated Senior Contracts Manager role and documented Job Description. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).

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- 4.1.3 In accordance with CPR 8.4, all contracts over £25,000 in value over the life of the Contract must be recorded on the Authority's Contracts Register. The contracts register was found to be up to date for each of the three contracts sampled within this review.
- 4.1.4 Upon receipt of all three contracts selected for testing, we reviewed the contract document for appropriate authorisation confirming, in each case sampled, authorisation in accordance with the Authority's Scheme of Delegation. However, it was noted that two of the contracts (CRL and WLCL) had Deeds of Extension which were unsigned. The Senior Contracts Manager explained that a recent office move had made it difficult to locate the signed copies. From discussion with the Senior Contracts Manager and review of the tonnage reports and contract meeting minutes, we are assured that under Contract Law this deed of extension would still be enforceable as all parties have continued to abide by the contract's terms and conditions, beyond the original end date.
- 4.1.5 We reviewed each of the three contracts sampled to confirm that roles and responsibilities for contract management and administration are suitably documented. It was noted that the VWML contract provided a brief, concise overview of the "authorised representative" role but the other two sample contracts sampled (CRL and WLCL) failed to define the Contract Manager duties. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix A**).
- 4.1.6 We are pleased to report that upon escalating this finding to WLWA management, they have devised new contract terms and conditions which include more detail around the contract manager responsibilities. These contracts are currently being tendered as the CRL and WLCL contract extensions expire in March 2018 however this risk is still pertinent to the remainder of Authority contracts.
- 4.1.7 We are pleased to report that WLWA's Contract Manager was confirmed, via review of the organisation's structure chart and Scheme of Delegations, as having the appropriate level of authority within the organisation. In addition, we contacted all three of the supplier's Contract Managers and were able to confirm they each possessed the appropriate level of authority within their own organisation to perform their duties as the assigned Contract Manager.

## 4.2 Contract Administration

- 4.2.1 As part of our testing, we sought to review the contracts and verify the inclusion of key clauses, including:
- Insurance indemnity;
  - Business Disaster Recovery Plan (BDRP)/ Business Continuity Plan (BCP);
  - Service Level Agreement (SLA);
  - Key Performance Indicators (KPIs);
  - Performance reporting requirements;
  - Contract meeting requirements;
  - Dispute resolution process;
  - Redress and compensation clauses; and
  - Contract variations process.
- 4.2.2 For insurance indemnity, we are pleased to report that all contracts stipulated the requirement for the supplier to have in place valid insurance policies which covered Public Liability (PL) and Employers' Liability (EL). When comparing the three sample contracts, we found the VWML contract stipulated minimum coverage at £5m for EL but the other two contracts listed a requirement on the supplier for £10m cover. We discussed this with the Senior Contracts Manager who explained that a minimum £5m was a sufficient level of cover and the draft version of the new contract's terms and conditions has revised this to a £5m threshold.

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- 4.2.3 All three contracts sampled contained a "Force Majeure" clause, permitting alternative providers to be sourced if the supplier could not deliver the contracted service due to unforeseen circumstances. However, sourcing an alternative supplier is more costly than ensuring the supplier is aware of and monitoring all environmental risks and likelihoods. Furthermore, 7.3.10 of the Authority's CPR outlines the requirement to "ensure that a business continuity plan is in place".
- 4.2.4 It is our opinion that the Authority would benefit from documenting the supplier's duty to mitigate their risk exposure by maintaining up to date, frequently reviewed and tested Business Continuity Plans (BCPs) and Business Disaster Recovery Plans (BDRPs). The Authority should also seek assurance regarding this, including a provision that copies of these documents are supplied annually (at a minimum) with the opportunity to observe annual tests of the plan. We are pleased to report that the draft version of the new contracts tendered for the services performed by WLCL and CRL has been updated to include a BDRP/ BCP clause. However, whilst management action has reduced the risk exposure moving forward, this risk is still pertinent to existing contract arrangements and we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).
- 4.2.5 An SLA is used to define the level of service expected from the service provider. SLAs are output-based in that their purpose is specifically to define what the customer will receive. SLAs are typically appended to contracts capturing key performance indicators (KPIs) to assist the contracting organisation in ensuring the supplier delivers the required service. Unfortunately, we could not locate a SLA in any of the 3 sample contracts tested.
- 4.2.6 We appreciate that the contract and the service specification defines the service expected but it is our opinion that the current KPIs within each contract were not sufficient mechanisms to enable WLWA to undertake effective contract management activities. Two of the three sample contracts tested (WLCL and CRL) had only four KPIs listed, which we found to be worded in a confusing manner, setting minimum levels of service expected. For example *"Response time exceeds 4 working hours when requested to provide vehicles to collect waste"*.
- 4.2.7 The other contract sampled (VWML) had no clear KPIs documented but made vague references to targets within large bodies of text, i.e. a clause titled "Waste Delivery" referenced a "20 minute turnaround of truck arriving, off-loading and leaving facility". However, we were unable to evidence within testing under Performance Reporting, below, that this minimum requirement was being monitored, measured or reported upon. We advocate the adoption of KPIs which drive performance in target areas, providing transparency over performance thus increasing the likelihood that contracting benefits are realised. We have raised a recommendation to enhance control and mitigate risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.2.8 In order for KPIs to be useful, they must be specific, measurable, realistic and timely (SMART). In addition they must be monitored and reported on. Our testing found two contracts (WLCL and CRL) had brief requirements documented in the contract around the supplier's duty to provide reports. Although, the reports referenced related to weighbridge ticket data, needed to verify invoice amounts, these do not monitor performance.
- 4.2.9 The VWML contract, which is worth approximately £10.4 million per annum (according to the contracts register), does not document any requirements for the supplier to produce reports for WLWA. We understand that currently, there is a good working relationship with all suppliers and therefore, the Senior Contracts Manager has no concerns over VWML failing to produce data reports. However, the contract has a life span of 25 years, in this time there will likely be a turnover of key personnel for both parties and therefore, it is important that the contract equips WLWA with the necessary contract management tools in the event that enforcement be necessary,. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

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- 4.2.10 The VWML contract was however the only document capturing the requirement for a regular contract management meeting, specifying a "3 monthly meeting" to take place to "discuss operational and contractual issues, agree minor variations and discuss changes to the waste deliver detailed arrangements". The exclusion of this requirement within the remaining two contracts sampled has been incorporated within **Recommendation 2** in the Management Action Plan at **Appendix A**.
- 4.2.11 It should be noted that upon feeding back interim findings to the Senior Contracts Manager, the authority have been quick to implement corrective action, amending the template for new contracts to be tendered to include the enhancements suggested, strengthening the authority's position in addition to reducing risk exposure. This has included placing a duty on the supplier to identify cost-saving initiatives, increase efficiency and customer satisfaction. We discussed the potential for offering a percentage of the cost-saving to the supplier as an incentive, strengthening the idea of collaborative working. We also discussed the need for an annual service review meeting which compares budgeted spend with actual spend, investigations of any variance and outcomes, benchmarking performance with competitors or other customers of the supplier.
- 4.2.12 Our testing found all 3 contracts sampled contained procedures for dispute resolution. However, upon review it was noted that the VWML contract does not include escalation mechanisms. The dispute resolution process within the VMWL contract was two-tiered, "in the event that any dispute cannot be resolved amicable between the Parties, then the matter may be referred to arbitration by either Party". By comparison, the WLCL and CRL offered a multi-tiered dispute resolution process, setting out clear timeframes for escalation. We have raised a low risk recommendation to ensure consistency (refer to **Recommendation 5** in the Management Action Plan at **Appendix B**).
- 4.2.13 Examination of each of the three contract documents confirmed the inclusion of a contract clause for liquidated damages, however we were surprised to see that, within the contracts for both WLCL and CRL, the contract clause (24) titled "Liquidated Damages" was stated as "Clause not used". This is despite Clause 24 being referenced as a tool to use under "Clause 4- Failure of Contractor to Carry Out Services". Further, it is our opinion that the VWML contract also fails to include measures for redress should the supplier underperform.
- 4.2.14 This is compounded by the absence of sufficient KPIs and performance reports provided by suppliers impacting the ability for liquidated damages to be used effectively if required. Upon discussing this with the Senior Contracts Manager, we understand there are strong working relationships in place with the supplier and so the service has ran smoothly. However, it is difficult for an independent third party to verify this in the absence of performance data. We have therefore incorporated this within **Recommendation 1** within the Management Action Plan at **Appendix A**.
- 4.2.15 Whilst all three contracts tested had comprehensive procedures detailed for price variations, only one contract (VWML) had a clear contract variation process. As discussed above under section 4.1.3, the two sample contracts which had not defined the Contract Manager role, also note the requirement of "authorised representatives" signatures for variations, although it is unclear who these individuals are. In addition, there was no detail captured around time frames for instigating/ introducing a variation, response time, disputed variations, implementing changes, exceptions, etc. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 6** in the Management Action Plan at **Appendix A**).

### 4.3 Contract Management

- 4.3.1 Our ability to test contract management activities was limited by the aforementioned lack of guidance and absence of contractual clauses and requirements surrounding SLAs, KPIs, contract meetings and performance reporting. We therefore focused our testing on:
- Contract management meetings;

- 
- Performance reports;
  - Contract variations;
  - Dispute resolution; and
  - Compensation & Redress.

- 4.3.2 It was established that the VWML's contract stipulates a meeting to take place quarterly and we are pleased to report that meetings take place on this frequency. Both the WLCL and CRL contracts fail to capture the requirement of contract management meetings, however, due to good relations established with these suppliers, annual meetings were found to take place. We are also pleased to report that appropriate meeting governance was evidenced with all meetings having documented agendas, minutes taken and attendees recorded. However, it is our opinion that controls surrounding the robustness of recording, tracking and monitoring of action points could be considerably enhanced. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).
- 4.3.3 We reviewed the minutes from the meetings held with WLC and CRL, considering these meetings were undertaken annually, the minutes appeared to contain a generic overview of "Service Updates" and "Operations", failing to depict the meeting as productive or informative or provide a critical analysis of the year's service, reflecting on improvements to be made, strengths identified, etc. VWML's quarterly meeting minutes were of similar quality, capturing an informal discussion of operations whilst omitting clear action points, failing to address performance management or evidence the benefits rendered from the meeting. As a result we have raised a recommendation to mitigate risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).
- 4.3.4 The VMWL contract, despite being the largest contract in our sample (worth £10.4 million per annum), does not require the supplier to produce any performance reports. The VWML contract requires them to provide regular weighbridge data and we were able to evidence tonnage data sheets are disclosed monthly, assisting with the verification of invoices. We appreciate there is currently a good working relationship in place but the absence of KPIs and significant performance data and reports for such a large contract sum is of concern. The findings have been incorporated into the recommendation raised regarding KPIs as in order for KPIs to be useful, they must be measured, monitored, reported on and scrutinised (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.3.5 The other two contracts tested, WLCL and CRL, also failed to provide performance reports. We understand the importance of the tonnage data being supplied by all 3 suppliers, as they help verify the invoice price but we saw no evidence of weighbridge data being spot-checked, using the original receipts. Furthermore, we would expect the contractors to supply annual calibration certificates and performance reports which analyse how efficiently they're operating, identifying bottle-necks or processes which aren't working as effectively. We have raised a recommendation to enhance the monitoring and oversight role of the supplier's performance (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.3.6 We were advised variations to the contracts' terms and conditions had taken place. WLCL and CRL both had their extension clauses enacted to ensure the provision of services up until 2018. However, as noted under 4.1.5 we were unable to locate copies of the signed Deed of Extensions. CRL had a change of service enacted via email and it was difficult to verify that this variation was carried out in accordance with the documented process. It should be noted that this alteration to the service was implemented by the Senior Contracts Manager's predecessor. Due to good relations with the contracted supplier, it appears this alteration of service has been honoured during the contract extension period. As the contract has now been retendered and the service alteration has been included in the specification, we have elected to raise a low risk recommendation (refer to **Recommendation 6** in the Management Action Plan at **Appendix A**).



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4.3.7 The Senior Contracts Manager advised there have been no serious disputes between the contracted Parties within our sample and therefore, the dispute resolution process has not been referred to or used. As a result of this, we did not perform any testing on the enactment of the contracted dispute resolution process.

#### 4.4 Management Information & Reporting

4.4.1 The oversight role is performed by the Senior Contracts Manager who demonstrated a good knowledge of the suppliers and their employees/ authorised representatives. The Senior Contracts Manager was less familiar with the contractual terms and conditions for WLCL and CRL but this is understandable given that they oversee £44.6 million of spend and that WLCL and CRL represent 2.1% and 1.6% of this spend respectively. There are a total of 22 contracts within the Senior Contracts Manager's remit, varying in size and complexity, by comparison VWML represents 23.2%.

4.4.2 As discussed above, there is limited management information and reporting from each of the three contracts sampled with recommendations raised accordingly to enhance the oversight role (refer to **Recommendations 1** and **2** in the Management Action Plan at **Appendix A**).

4.4.3 Upon escalating our preliminary findings around Contract Administration, we have been impressed with the expediency the Senior Contracts Manager implemented corrective action to address the controls gaps identified. Whilst the new contracts being tendered will include these suggested improvements, we would advocate the creation of a minimum set of standards for contract management, elaborating on what the effective framework (referred to in the Authority's CPR) resembles, ensuring that robust and proportional contract management activities are carried out consistently and effectively for contracts of all size and complexity. We have also recommended contractual terms placing the onus on suppliers to produce valuable, purposeful, analytical and critically reflective performance reports so the Senior Contracts Manager can perform their oversight role of 22 contracts more effectively.

### 5. Acknowledgement

5.1 Internal Audit would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular, the Senior Contracts Manager, whose advice and help were gratefully appreciated.

### 6. Internal Audit Contact Details

This audit was led by: Chloe Moorcroft  
**Internal Auditor**

This audit was reviewed by: Martyn White, CIA CMIIA  
**Senior Internal Audit Manager**

Thank you,



Muir Laurie FCCA, CMIIA  
**Head of Business Assurance**

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating*	Risk Response*	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>Management should consider reviewing the Key Performance Indicators (KPIs) within the contracts to ensure that they are appropriately defined, managed and reported upon, enabling the Authority to accurately monitor the supplier's performance in relation to the business needs, contractual obligations and competitiveness in the market.</p> <p>Where the Contractor fails to meet the service requirements, the Authority should consider compensation in the form of service credits to ensure service failure does not continue without redress (para refs. 4.1.5, 4.2.7, 4.2.9, 4.2.14, 4.3.4 and 4.3.5)</p>	<p><i>If KPIs are not documented, formally agreed and relevant to business needs, the supplier may not be held liable for poor contractual performance. Furthermore, if KPIs are not regularly measured, monitored or reported, this could lead to poor decision making and potentially impact the efficiency and effectiveness of the outsourced operations. This in turn, may increase the risk of financial loss and reputational damage to the Authority.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<p><b>TREAT</b></p>	<p>This risk relates to historic inherited contracts. Therefore management will review all contracts and seek to introduce KPIs either by:</p> <ul style="list-style-type: none"> <li>• Negotiated introduction/inclusion; or</li> <li>• Inclusion within re-procurement exercises (in the form of updated tender specification and Terms and conditions).</li> </ul> <p>This has partially already been actioned for the all the organics contracts (3x contracts) and transport contracts (2x contacts) which are being retendered at present. The specification and terms and conditions have been updated to address the recommendations raised.</p>	<p>Senior Contracts Manager</p> <p>(Ken Lawson)</p> <p>31<sup>st</sup> March 2019</p>

\*Please refer to **Appendix C** for Risk definitions.

Management Action Plan

No.	Recommendation	Risk	Risk Rating*	Risk Response*	Management Action to Mitigate Risk	Risk Owner & Implementation date
2	<p>Management should consider reviewing the arrangements in the contract which mandate for contract management meetings to occur at a specified frequency, covering topics such as cost analysis, performance of supplier, operational issues and contract variations.</p> <p>This should be undertaken on a risk based approach but an annual service review meeting should take place for each contract as a minimum.</p> <p>Management should consider enhancing the method used to note action points, ownership and time frames and improving the monitoring system in place (para refs. 4.2.10, 4.3.2 and 4.3.3)</p>	<p><i>If the requirement of contract management meetings is not captured in the contract, there is a risk that the Authority is not able to effectively performance manage the supplier as there is no formal, regular forum to discuss operational issues. The Authority risks not receiving value for money, therefore increasing the likelihood of financial loss and reputational damage, along with undermining the original goal of the outsourcing arrangement.</i></p>	<p><b>MEDIUM</b></p> <p>●</p>	<p><b>TREAT</b></p>	<p>This risk relates to historic inherited contracts. Therefore will review all contracts and seek to introduce contract management requirements for regular meetings/annual service reviews and also include Business Continuity requirements either by:</p> <ul style="list-style-type: none"> <li>• Negotiated introduction/inclusion; or</li> <li>• Inclusion within re-procurement exercises (in the form of updated tender specification and Terms and conditions).</li> </ul> <p>This has partially already been actioned for the all the organics contracts (3x contracts) and transport contracts (2x contacts) which are being retendered at present. The specification and terms and conditions have been updated to address the recommendations raised.</p>	<p>Senior Contracts Manager</p> <p>(Ken Lawson)</p> <p>31<sup>st</sup> March 2019</p>

\*Please refer to **Appendix C** for Risk definitions.

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**Good Practice Suggestions & Notable Practices Identified**

No.	Observation / Suggestion	Risk / Rationale	Risk Rating*
3	<p>Management should consider either updating the Contracts &amp; Procurement Rules or provide supplementary guidance defining the expected governance arrangements for the Authority's contracts. This should reflect expectations regarding contract management activities and the contract manager role in overseeing the supplier's performance.</p> <p>The contract manager role should also be clearly defined in one consolidated section of the contract which provides clarity over responsibilities and contains contact details (para refs 4.1.2 and 4.1.5).</p>	<p><i>Where roles and responsibilities are not clearly defined or formally agreed between both parties, there is an increased potential for insufficient administration, oversight and scrutiny to occur. In turn, this could hinder the effectiveness of the contract through the non-delivery of contractual arrangements and obligations.</i></p>	<p><b>LOW</b> ●</p>
4	<p>Management should consider including a contractual clause to ensure the supplier is aware of and monitoring all risks they're exposed to, along with the supplier's duty to mitigate their risk exposure by maintaining frequently reviewed and tested Disaster Recovery/Business Continuity Plans (para ref 4.2.4).</p>	<p><i>Where the Authority does not obtain appropriate assurance that sufficient and robust business continuity arrangements are in place, there is an increased likelihood that in the event of an untoward incident or business interruption, significant financial costs are endured by the Authority to ensure continuity of service.</i></p>	<p><b>LOW</b> ●</p>
5	<p>Management should ensure all dispute resolution processes captured in contracts are multi-tiered, with appropriate escalation mechanisms in place (para ref 4.2.12).</p>	<p><i>If adequate escalation mechanisms are not in place, issues of minute significance may be inappropriately escalated to arbitration, in the absence of multi-tiered dispute resolution processes. This would impact the Authority's reputation and inefficient use of the Authority's resources.</i></p>	<p><b>LOW</b> ●</p>
6	<p>Management should ensure contract variation clauses provide a clear process with the appropriate safeguards in place.</p> <p>Management should ensure any significant changes made to the procedures, methods or management of the contracts and their service provisions are processed in accordance with the documented contract variation process and scheme of delegation (para refs 4.2.15 and 4.3.6).</p>	<p><i>Where there is an ambiguous process for contract variations, inappropriate changes to the contracted service could occur which may undermine the original purpose of the outsourced arrangement or impact the delivery of value for money.</i></p>	<p><b>LOW</b> ●</p>

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## INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

Assurance Level	Definition
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Authority's objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Authority's 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 <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Authority's 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 <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Authority's 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 <b>high risk</b> 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.

### RISK RESPONSE DEFINITIONS

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

### INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

Risk	Definition
<b>HIGH</b> <span style="color: red;">●</span>	The recommendation relates to a <b>significant threat</b> 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. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> <span style="color: yellow;">●</span>	The recommendation relates to a <b>potentially significant threat</b> 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. <b>The risk requires management attention.</b>
<b>LOW</b> <span style="color: green;">●</span>	The recommendation relates to a <b>minor threat or opportunity</b> 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. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> <span style="color: blue;">●</span>	The activity <b>reflects current best management practice</b> or is an innovative response to the management of risk within the Authority. <b>The practice should be shared with others.</b>

### **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.

This document is confidential and prepared solely for your information. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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WEST LONDON WASTE AUTHORITY

AUDIT COMMITTEE

26 January 2018

Report of the Managing Director and Treasurer

**West London Waste Authority Risk Register**

**SUMMARY**

This report provides the Committee with the Authority's updated Risk Register.

**RECOMMENDATION(S)**

The Committee is asked to:-

- 1) Note the content of the Risk Register (Appendix 1)

- 1. Introduction** – The Authority maintains a risk register which sets out the main risks to which the Authority is exposed and the actions management is taking to mitigate those risks. This is in line with good corporate governance.
- 2. Detail** – The Corporate Risk Register is a formal document that is reviewed regularly by risk owners and is a standard agenda item discussed at WLWA Officer meetings which are held every 4-6 weeks, where risks and actions are considered and updated routinely.
- 3.** The risks are grouped according to the widely used PESTLE framework - political, economic, social, technological, legislative and environmental risks. Each risk is reviewed individually with risk owners taking responsibility for updating the register and highlighting significant changes and new risks. At the end of the document you will find a matrix which helps Officers to score individual risks in terms of their probability and potential impact should they crystallize.
- 4.** The risk register highlights two amber risks.
  - The first amber item relates to payment mechanisms primarily within the PPP contract – the contract's financial arrangements can be found across several schedules with the majority being in a 30 page schedule called the payment mechanism. This is a complex contract and as in any contract, terms can be open to interpretation. These are normally ironed out within the first few years as contracts bed down.

The classification is based previous experience of a large contingent liability reported in the 2016/17 accounts.

- The second amber item relates to the risks the Authority would face to put in place infrastructure to meet future needs. Principally this is a risk facing all developers/builders where there is the possibility of planning challenge from members of the public and others.

Overcoming these 'planning' risks is also likely to be time consuming, costly and challenging.

5. **Appendix 1** provides the latest risk register which was updated at the latest Chief Officers' meeting. In overall terms, the risk register identifies 20 Red and Amber risks facing the Authority and the mitigating actions. 18 of the risks have been mitigated to a Green status and there are 2 risks at Amber status as detailed earlier.
6. **Financial Implications** – The financial element of each risk is considered as part of the impact score. The higher the score the larger the potential impact.
7. **Legal Implications** – There are no legal implications as part of this report.
8. **Impact on Joint Waste Management Strategy** – The risk register crosses all policies within the Joint Waste Management Strategy.
- Policy 7:** The West London Waste Authority and constituent Boroughs will seek to provide waste management services that offer good value, that provide customer satisfaction and that meet and exceed legislative requirements.
- Policy 8:** The West London Waste Authority and constituent Boroughs will work together to achieve the aims of this strategy and are committed to share equitably the costs and rewards of achieving its aims.

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Appendix 2

Risk Area "There is a risk that..."	Analysis of Risk "Which will result in..."	Type	Assessment of Risk original score in brackets			Management Actions Implemented or Planned (in bold)	Assessment of Risk after mitigations			Responsible Officer
			Impact	Probability	Rating		Impact	Probability	Rating	
Recycling targets and environmental legislation will weaken post Brexit	Unwanted facilities, expensive but sustainable methods of managing waste materials	Political	4 (5)	3 (4)	12 (20)	Ongoing monitoring of proposals, respond to consultations and review as part of new contracts. Continue to attend CIWM events and monitor industry commentary and reiterate west London Boroughs intent to hit 50% target.	4	1	4	Managing Director
Authority decisions may be based on inaccurate or incomplete information	Inappropriate actions, unnecessary costs, challenge from an interested party and impact on reputation	Political	5	2	10	Scrutiny processes in place for reporting, reviewing and checking of any financial data by Officers. Borough officers consulted on all draft papers for financial and technical comment. Policy for handling conflicts of interest involving Members and/or Officers.	5	1	5	Managing Director
One or more of the waste treatment and disposal contracts will perform poorly or a single event will result in a need for business continuity planning.	Poor service to the Boroughs using the sites or needing material to be removed from site. Complaints about nuisance e.g. odour or pests. Increased cost of handling materials	Political	5	2	10	Ongoing review of contingency arrangements on each contract quarterly / annually as required. PPP contract used contingency arrangements during commissioning. Holding regular meetings with contractors and monitor KPIs as appropriate. Regular communication with Boroughs about service issues. Service monitoring and market information, reports on credit changes monitored. Credit checks and a review of accounts are routinely undertaken for new contracts and considered for contract extensions.	5	1	5	Contracts Manager
WLWA is not managed in accordance with policies and procedures or the policies and procedures are not robust.	Inappropriate decision making, failure to meet objectives and impact on reputation	Political	5	2	10	Internal management team meetings, Chief Officer's meetings, Borough Partnership meetings and review of Authority papers. Audit Committee established with internal and external audit governance framework. Key performance indicators are reported to the Authority. Borough officers consulted on all draft papers for financial and technical comment.	5	1	5	Managing Director
WLWA financial processes are not robust	Internal fraud by an employee or contractor, bad information resulting in wrong decisions	Economic	5 (4)	2	10 (8)	Internal audit plan in place. Policies and procedures in place including arrangements for checking contracts and invoices. Segregation of duties between authorisation and checking of payments. Robust arrangements in place to control payments. Register of assets maintained. Processes in place for the monitoring of ad hoc contracts, contract management and negotiations. Whistle blowing policy. Standing Orders. 2015 Internal audit assurance Procurement fraud training rolled out in 2016 and declarations of interest extended to all staff involved in procurement.	4	1	4	Head of Finance and Performance
There will be unforeseen financial costs not covered by balances	An in-year levy to the Boroughs	Economic	4	3	12	Budget processes reviewed and monthly reporting demonstrating consistent performance. Budgets built from the bottom up with input and validation of data from boroughs. Boroughs nominate number of tonnes for PAYT budget for collected tonnes. Prudent levels of reserves are maintained to act as a buffer against any unforeseen risks and financial costs. Budget plan takes into account quantifiable risks. Where appropriate budgets are set with contingencies for identified risks.	3	1	3	Head of Finance and Performance
WLWA insurance cover will be insufficient	Inadequate cover to meet the costs of future claims, increasing difficulty in obtaining competitive quotes for waste industry facilities	Economic	5	3	15	There is an annual review with brokers and insurers to review adequacy of policies, claims history and premiums and options. Regular updates from insurer and broker advising of new policies.	5	1	5	Head of Finance and Performance
Funds (cash) are not managed effectively	Insufficient readily accessible cash to meet spending commitments resulting in financial penalties, legal claims and poor reputation. Poor rate of return on investments.	Economic	4	4	16	Cash planning in place. Processes in place to make payments swiftly, within minutes if necessary. Cash balances maintained to cover delays in borough transactions. 3 day turnaround time for calling down funding from investments. Opportunities to improve returns are reported to Chief Officers/Authority e.g. office procurement	3	1	3	Head of Finance and Performance
The contract payment mechanisms are not properly understood or ambiguous	Payment delays, under or overpayments or disputes	Economic	5 (4)	3	15 (12)	In-house checks of invoices by both operational and financial managers in place. Independent audit of contractor's payment model. In depth contract knowledge of Sharpe Pritchard solicitors and PwC financial advisers. Monthly contract meetings, training and familiarisation with payment mechanisms	5 (4)	2	10 (8)	Head of Finance and Performance
There will be fluctuations in material value due to recycling and raw material market forces	Uncontracted material streams may not be budgeted accurately, Falling scrap metal prices could lead to more abandoned vehicles for disposal, Boroughs cannot rely on a regular / known income from dry mixed recycling	Economic	3	3	9	Regular monitoring of all material markets and sharing information with Boroughs.	3	2	6	Contracts Manager
The loss of or absence of a key member of the team	Ineffective day to day management of the Authority, poor service delivery, contract management and long term planning	Economic	3	3	9	Recruitment policies, succession planning, cover/interim arrangements and other procedures limit impact on business continuity. New management structure largely in place	2	2	4	Managing Director

IT systems are insecure or suffer a major failure	Loss of data which we are obliged to report, or without which we cannot invoice or operate effectively	Economic	4 (5)	4	16 (20)	ICT service is delivered by LB Ealing and subject to a wide range of back-up and security measures including remote storage and performance to an agreed service level standards. An IT strategy is in place and IT requirements are regularly reviewed. LBE unable to provide service long term. New arrangements to replace LBE identified in IT report. Project resource and management to mitigate any risks.	4	1	4	Head of Finance and Performance
The waste flows are constantly changing	The contracted capacity does not match actual treatment requirement resulting in ineffective waste management arrangements	Social	5	3	15	Regular monitoring of waste flows and data patterns. Contracts with suitable flexibility/capacity. Liaison with boroughs for service changes, highlighting risks during the budget setting and budget monitoring.	4	1	4	Contracts Manager
The need for local facilities will be rejected by the planning process	Protracted and expensive planning applications, bad will from the local community and failure to ensure availability of ideal infrastructure	Social	4	4 (5)	16 (20)	Adopting appropriate project management approach will include early engagement with community liaison groups, robust site analysis and multiple options cost analysis. Careful selection well managed planning authorities. Discussions with neighboring WDAs	4	3	12	Contracts Manager
We are reliant on one member of staff for the access database	Being unable to administer/support our core IT system (developed by that member of staff), the Access waste data management system (used for checking invoices, submitting waste dataflow returns, providing management information).	Technological	5	3	15	Documented procedures allow continued day to day use of the system and the procurement of Opensky data management system with fully supported maintenance will mitigate this risk further. New system processes tested and working. Awaiting reports.	4	2	8	Head of Finance and Performance
WLWA Borough data is not being viewed holistically	A disjointed approach. Failure to capitalise on opportunity. Additional cost. A continuing disjointed approach. The Boroughs will fail to meet the 50% recycling composting target by 2010	Technological	5	3	15	Data is viewed from an Authority perspective and ensures operations are effective for the Authority. However a more holistic view of data across all boroughs will facilitate better partnership working. Information needs documented. New project identified in Business plan.	4	2	8	Head of Finance and Performance
There will be a change in law relevant to our contracts	Unanticipated cost for the Authority	Legislative	4	4	16	Legislative changes are identified i.e. which affect EfW or transfer station operations, an incineration tax or change in classification to hazardous waste and are prepared for accordingly. Widp meetings are attended to gather from/share knowledge with other disposal authorities. Where possible costs will be built into the budgeting process or reported through budget monitoring and dealt with through reserves.	4	2	8	Contracts Manager
DCLG will challenge our HRRC provision or charging policy	Reputational damage, court action or a fine	Legislative	3	3	9	A Memorandum of Understanding (MoU) with boroughs and the availability of HRRC sites demonstrates performance of the statutory role. However the MoU expired in 2015 and charging policies across boroughs are disparate. New project identified in the business plan for HRRCs.	1	2	2	Operations Manager
Environmental damage will be caused by Authority or Contractor Activities	Increased cost of repair, potential fines, reputational damage	Environmental	5	2	10	Range of processes including internal daily and weekly monitoring. Review operations risks. Review procurement policy. Monitor contractor's environmental performance and reporting.	5	1	5	Operations Manager
There will be a breach in Health & Safety at an Authority or Contractor site	Risk of injury to staff or public visitors to Authority sites	Environmental	5	2	10	Specialist Health and Safety Advice from LB Hounslow. 2015 Internal audit provided assurance. 2016/17 Action Plan considered and agreed with GMB. Monitor contractor's health and safety performance and reporting. A range of fire prevention/precaution measures are in place at site including fire risk assessments. Losses are also covered by insurance policies.	5	1	5	Operations Manager

## Risk Rating

### Impact Classification

	Service disruption	Financial Loss	Reputation	Failure to provide statutory service/meet legal obligations	People
<b>Extreme 5</b>	Total failure of service	Over £5m	National publicity > than 3 days. Resignation of leading member of chief officer	Multiple civil or criminal suits. Litigation, claim or fine above £5m	Fatality of one of more clients/staff
<b>Very high 4</b>	Serious disruption to service	£500k-£5m	National public or press interest	Litigation, claim or fine £500k-£5m	Serious injury. Permanent disablement of one of more clients/staff
<b>Medium 3</b>	Disruption to service	£50k-£500k	Local public/press interest	Litigation, claim or fine £50k-£500k	Major injury to individual
<b>Low 2</b>	Some minor impact on service	£5k-£50k	Contained within department	Litigation, claim or fine £5k-£50k	Minor injuries to several people
<b>Negligible 1</b>	Annoyance but does not disrupt service	< £5k	Contained within unit/section	Litigation, within claim or fine less than £5k	Minor injury to an individual

### Likelihood Classification

5. *Almost Certain* – Expected to occur in most circumstances (>80%)
4. *Likely* – Will probably occur in most circumstances (51%-80%)
3. *Possible* – Fairly likely to occur (21%-50%)
2. *Unlikely* – Could occur at some time (6%-30%)
1. *Rare* – May occur only in exceptional circumstances (0-5%)

**Risk Rating/Scoring = Impact\*Likelihood. Prioritisation of Risks**

20-25 (Red)	Those risks requiring immediate management and monitoring
9-19 (Amber)	Those risks requiring management and monitoring but less time critical
1-8 (Green)	Those risks which require ongoing monitoring

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**West London Waste  
Authority**  
**Audit planning report**  
Year ended 31 March 2018

26 January 2018

Private and Confidential  
Audit Committee  
West London Waste Authority  
Civic Centre, Lampton Road  
Hounslow  
TW3 4DN

26 January 2018

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26 January 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson  
For and on behalf of Ernst & Young LLP  
Enc



# Contents



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of West London Waste Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of West London Waste Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of West London Waste Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

# Overview of our 2017/18 audit strategy



## Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk/ Significant risk	No change in risk	Under International Standard on Auditing 240 (ISA240) there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We identify and respond to this fraud risk on most audit engagements.
67 Misstatements due to fraud or error (management override)	Fraud risk	No change in risk	As identified in International Standard on Auditing 240 (ISA240), management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Valuation of Property, Plant and Equipment	Significant risk	No change in risk	During 2016/17, as a new energy recovery centre came into use, West London Waste Authority's Property, Plant and Equipment increased in value from £5,166,000 at 31 March 2016 to £204,796,000 on 31 March 2017. As the asset values are very high, there is a risk that even a small fluctuation could have an impact on the Comprehensive Income and Expenditure Statement and on asset carrying values.
Agresso upgrade and waste data management system migration	Area of audit focus	Area of focus	Two significant IT projects are planned for completion by February 2018. Effective project management will be important to ensure there is no impact on the year end accounts production process.
Pension liability valuation	Inherent risk	No change in risk	The Authority's pension fund deficit is a material estimated balance. At 31 March 2017 this totalled £8.6 million. We will liaise with the auditors of the pension fund to gain assurance over the information supporting this balance.

# Overview of our 2017/18 audit strategy


## Materiality

Materiality has been set at £1,136,000, which represents 2% of the prior years gross operating costs on provision of services.

Performance materiality has been set at £852,000, which represents 75% of materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £57,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

## Audit scope

 This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of West London Waste Authority give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.



# 02 Audit risks



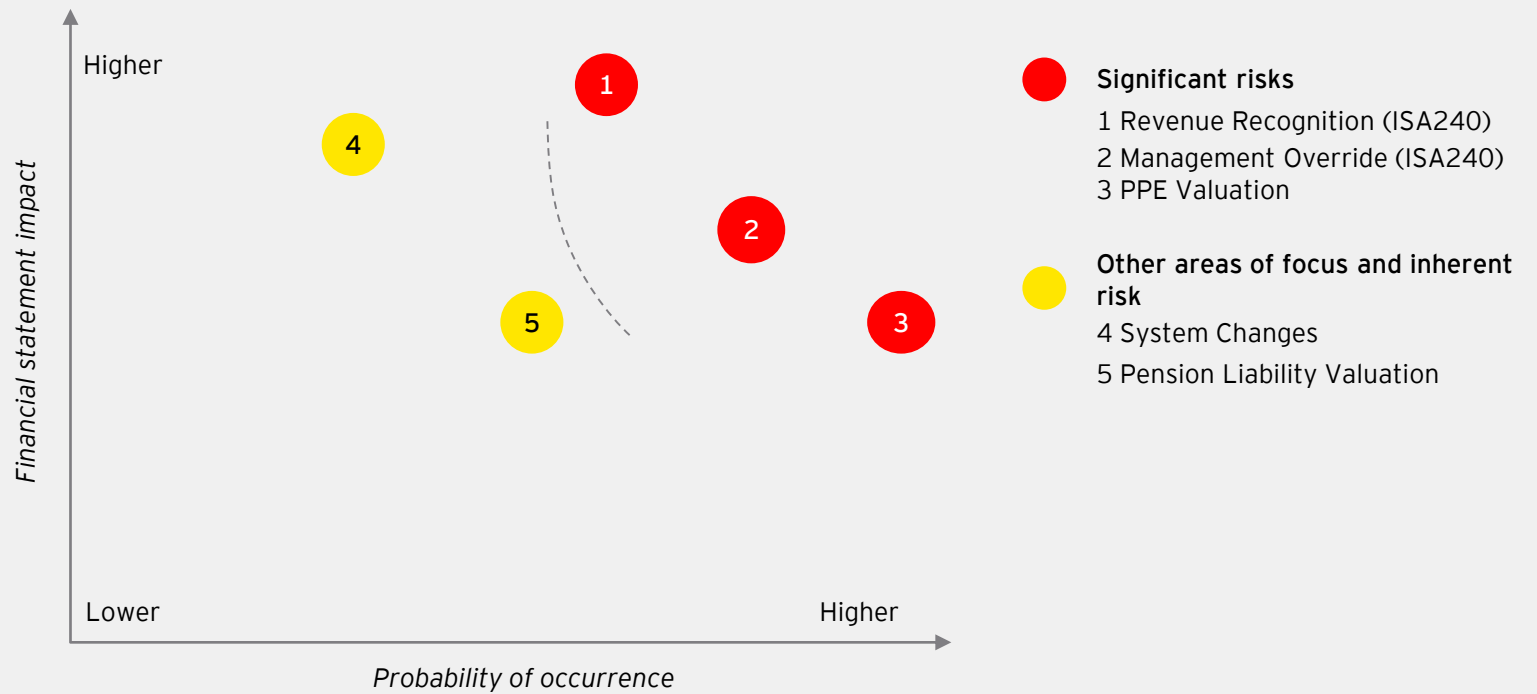
## Risk assessment

### Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016/17 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our 31 March 2018 year-end audit:

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# Audit risks

## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p><b>Risk of fraud in revenue and expenditure recognition - ISA240 *</b></p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We identify and respond to this fraud risk on most audit engagements.</p>	<ul style="list-style-type: none"> <li>▶ Review and test revenue and expenditure recognition policies.</li> <li>▶ Conduct cut-off testing to test the correctness of revenue and expenditure allocation to accounting periods (particularly around the year end).</li> <li>▶ Assess topside adjustments/journal entries for evidence of management bias and evaluate for business rationale.</li> </ul>
<p><b>Financial statement impact</b></p> <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. In particular, we will consider:</p> <p>Levies on Constituent Councils (2016/17: £55,277,000)</p> <p>Short term creditors (2016/17: £9,227,000).</p>		<ul style="list-style-type: none"> <li>▶ Assess accounting estimates for evidence of management bias. Estimates we anticipate assessing include the Pension Fund liability (£8,643,000 at 31 March 2017); the valuation of Property, Plant and Equipment (£204,796,000 at 31 March 2017); and short term creditors (£9,227,000 at 31 March 2017 and expected to include accruals).</li> <li>▶ Conduct focused testing on year-end accruals balances.</li> </ul>

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## Audit risks

### Our response to significant risks (continued)

Misstatements due to fraud or error (management override) - ISA240 \*

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

#### What will we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Enquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determine an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.



## Our response to significant risks (continued)

### Valuation of Property, Plant and Equipment

#### What is the risk?

During 2016/17, as a new energy recovery centre came into use, West London Waste Authority's Property, Plant and Equipment increased in value from £5,166,000 at 31 March 2016 to £204,796,000 on 31 March 2017.

Some £204.5 million of the 31 March 2017 balance comprised land and buildings which are valued every five years applying fair value assumptions using independent professional valuations to reflect the current value to the Authority in their existing use. A full valuation was undertaken in March 2017 by Wilks, Head and Eve, Chartered Surveyors and at the time of writing this report, although an impairment exercise was planned, there are no formal arrangements for indexing the land and buildings at 31 March 2018 to reflect any estimated changes in market conditions.

As the asset values are very high, there is a risk that even a small fluctuation in indices could have an impact on the Comprehensive Income and Expenditure Statement and on asset carrying values. Furthermore, we note that some £8.7 million of the land and buildings are held under leasehold agreements. At the time of writing this report, options for purchasing these assets were being considered. Developments around any possible future purchase could also impact on valuations.

#### What will we do?

- ▶ Review the Authority's impairment exercise and assess building cost indices used in that exercise against market trends.
- ▶ Monitor progress around the possible purchase of leasehold land and buildings.
- ▶ Request accounting papers from management supporting the valuations at 31 March 2018 and outlining expected impacts on valuation of any future purchase of leasehold sites.

#### Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of Property, Plant and Equipment (31 March 2017: £204,796,000).

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## Audit risks

# Other areas of audit focus and inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

### What is the area of focus/ inherent risk?

### What will we do?

#### Agresso Upgrade and Waste Data Management System Migration

Two significant IT projects are planned for completion by February 2018. The current "Access" Waste Data Management System (which supports waste accounts receivable and accounts payable invoicing) is due to be switched of on 31 January and replaced by the "Open Sky" system, with full data migration having occurred between the two systems. Agresso (the general ledger) is planned to be transferred from London Borough of Ealing servers to the cloud by February through normal IT change processes. At the time of writing this report, the timeline for waste data migration had been shared with us. However, a detailed project plan for the Agresso upgrade had not yet been produced.

We will:

- ▶ Conduct walkthrough testing on the "Access" Waste Data Management System (and it's interaction with Accounts Receivable and Accounts Payable cycles) in December 2017, before the system switches off.
- ▶ Conduct walkthrough testing on the replacement system as part of our interim audit.
- ▶ Obtain and review project plans for the Waste Data migration and the Agresso upgrade.
- ▶ Obtain test results for the Authority's Waste Data Management System testing of transaction and data migration;
- ▶ Consider management's (and, if applicable, internal audit's) own assessments of both project's outcomes.
- ▶ Identify and review agresso disaster recovery and IT security arrangements.

#### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the London Pensions Fund Authority (LPFA) Pension Fund.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on Authority's balance sheet. At 31 March 2017 this totalled £8.6 million.

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the London Pensions Fund Authority. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We will:

- ▶ Liaise with the auditors of the LPFA Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Authority;
- ▶ Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the West London Waste Authority's financial statements in relation to IAS19.

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# Value for Money Risks





# Value for Money

## Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

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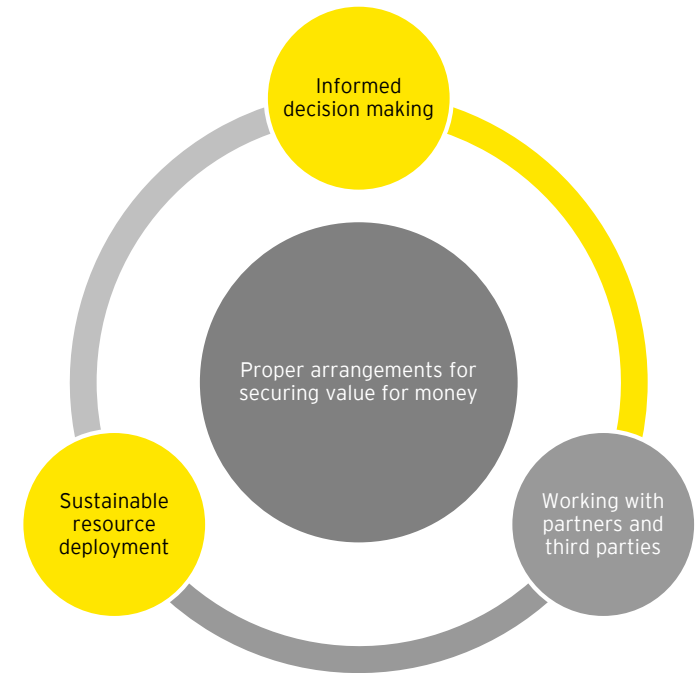
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks.



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## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £1,136,000. This represents 2% of the Authority's prior year gross operating costs for the provision of services. It will be reassessed throughout the audit process. The rationale for this is that the expectations of users of the entity are focused on the measurement of costs. We have provided supplemental information about audit materiality in Appendix D.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and the balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

# 05 Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### 08 Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

#### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.



## Our Audit Process and Strategy (continued)

### Audit Process Overview

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

#### Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

#### Internal audit:

We will liaise with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



# Audit team

**Audit team structure:**

Helen Thompson, Associate Partner

Jo Taylor, Manager

Taher Merimi, Senior

## Audit team

# Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY and PWC Actuaries
Data Migrations	EY Risk Advisory

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



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**07** Audit timeline





## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scope.	November 2017		
Walkthrough Accounts Receivable and Accounts Payables cycles	December 2017		
Audit Planning Report presented to the Audit Committee	26 <sup>th</sup> January 2018	Audit Committee	Audit Planning Report
Walkthrough of key systems and processes	12 <sup>th</sup> - 23 <sup>rd</sup> March 2018		
Testing of routine processes and controls and interim audit testing	12 <sup>th</sup> - 23 <sup>rd</sup> March 2018		
Year end audit: Account testing	8 <sup>th</sup> - 18 <sup>th</sup> May 2018		
Year end audit: Audit Completion procedures	29 <sup>th</sup> June 2018	Audit Committee and Authority meeting	Audit Results Report Audit opinions and completion certificates
Completion	July 2018		Annual Audit Letter

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Independence



## Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

#### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

#### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.



## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with our policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

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At the time of writing, we receive no non-audit fees. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

## Relationships, services and related threats and safeguards

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>

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Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

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	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	19,770	19,770	30,241
<b>Total audit</b>	<b>19,770</b>	<b>19,770</b>	<b>30,241</b>
Other non-audit services	0	0	0
<b>Total other non-audit services</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fees</b>	<b>19,770</b>	<b>19,770</b>	<b>30,241</b>

*All fees exclude VAT*

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Authority; and
- ▶ The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, or if additional work is required around risks and areas of audit focus, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B

# Regulatory update

At previous Audit Committee meetings, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

<b>Earlier deadline for production and audit of the financial statements from 2017/18</b>	
<b>Proposed effective date</b>	Effective for annual periods beginning on or after 1 April 2017.
<b>Details</b>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
<b>Impact on West London Waste Authority</b>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We are working with the Authority to develop a very detailed timetable for the provision of information and for audit testing.</p> <p>We are also working with the auditors of the London Pensions Fund Authority to bring forward the timetable for receipt of assurances supporting of work on the IAS19 pension liability.</p>




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## Appendix C

# Required communications with the Audit Committee





We have detailed the communications that we must provide to the Audit Committee.

### Our Reporting to you

Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by <b>the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</b>	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
96 Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report

## Appendix C





# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
96 Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report






## Appendix C

# Required communications with the Audit Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report and Audit Results Report

## Appendix C





# Required communications with the Audit Committee (continued)

			 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>	
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	Audit results report	
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Management letter/audit results report	

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## Appendix C

# Required communications with the Audit Committee (continued)

			 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	  <b>When and where</b>	
Representations	Written representations we are requesting from management and/or those charged with governance		Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise		Audit results report
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>		Audit results report
69 Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>		Audit planning report and Audit results report
Certification work	Summary of certification work undertaken		Certification report

## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

#### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Additional audit information (continued)

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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