

West London Waste Authority

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16 January 2020

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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 24 January 2020 at 10.00 am

MEMBERSHIP

Councillor Krupa Sheth, London Borough of Brent
Councillor Philip Corthorne, London Borough of Hillingdon
Councillor Graham Henson, London Borough of Harrow
Councillor Guy Lambert, London Borough of Hounslow
Councillor Mik Sabiers, London Borough of Ealing
Councillor Julia Neden Watts, London Borough of Richmond

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 Audit Committee meeting held on 25 January 2019 and the Authority meeting (as the Audit Committee) on 28 June 2019 (Pages 3 - 10)

4. Internal Audit Reports (Business Continuity, Performance Management) (Pages 11 - 34)
5. Risk Register (Pages 35 - 38)
6. External Audit Plan for 2019/20 Accounts (Pages 39 - 80)

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 25 January 2019 at 10.00 am at the Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY.

Present:

Councillor Graham Henson and Councillor Krupa Sheth
Andrea White (Independent Person)

Apologies for Absence

Councillor Keith Burrows (Chair)

51. Apologies for absence

Apologies for absence were received from Councillor Keith Burrows.

52. Declarations of interest

53. Election of Chair

RESOLVED: That Councillor Krupa Sheth be appointed as Chair for the meeting.

54. Minutes of the meeting held on 26 January 2018

RESOLVED: That the minutes of the meeting held on 26 January 2018 be taken as read and signed as a correct record.

55. Internal Audit Reports (Fraud, Health and Safety)

Sarah Hydrie, Internal Auditor, introduced the internal audit reports in relation to a fraud incident at the Twyford site and health and safety and outlined the content.

In relation to the Twyford fraud incident, Andrea White, Independent Person, questioned the adequacy of systems and controls and the compliance with those systems and controls and was advised that some of those issues were easier to address than others. In terms of wider management issues such as appraisals and induction, management had commenced the process by employing HR consultants. The Committee recognised that the employee responsible for the fraud had not followed the policies but that there had been a staff restructure and new management at the site and there continued to be good progress. The disciplinary aspect of the case had been concluded.

The Internal Auditor confirmed that two reviews had been carried out during 2018/19 with one more due by the end of the year and the Committee noted that the reviews in relation to performance management and business continuity had been delayed to the next financial year. The Internal Auditor added that consideration should be given to the development of quarterly key health and safety performance indicators in order to mitigate risk (page 25, point 3 refers).

RESOLVED: That the report be noted.

56. Risk Register

Jay Patel, Head of Finance, introduced the report which provided an update on the Authority's risk register.

In response to a question in relation to limited assurance and compliance, Jay Patel advised that whilst this had not been discussed by Chief Officers, the risk of small scale fraud was the same for the Authority as for other businesses. Emma Beal added that whilst the fraud committed at Twyford had been low impact the response to it had been seen in every part of the organisation.

Andrea White, Independent Person, sought clarification in relation to the potential challenge by the Department of Local Government and Communities of the HRRC provision or charging policy (page 32, point 16 refers) in terms of risk. The Managing Director advised that it was the Authority's statutory responsibility to provide sites and that whilst the Government was considering charging policies a change in legislation would be required. Officers would continue to monitor provision and services at the HRRC sites. Members were advised that the Authority owning all the HRRC sites would be the biggest mitigation of risk.

RESOLVED: That the report be noted.

57. External Audit Plan for 2018/19 Accounts

Members received the Audit Planning report for the year ended 31 March 2019.

Helen Thompson, External Auditor (Ernst and Young), outlined the content of the report and highlighted the risks, particularly in relation to the valuation of property and plant. In addition, she explained that as an auditor she was required to consider the impact if management overrode controls and, whilst this was always tested as a significant risk, the way it was reported had changed.

Jay Patel, Head of Finance, confirmed that the levy was not affected by IFRS 9 and IFRS 15, the new accounting standards applicable from the 2018/19 financial year.

Members welcomed the positive report. A Member questioned the possibility of the manipulation of weights risk. Helen Thompson, External Auditor, confirmed that this risk had been tested in previous years but was described in more detail in this plan.

RESOLVED: That the report be noted.

The meeting finished at 10.33 am.

The minute taker at this meeting was Alison Atherton.

At a meeting of the West London Waste Authority held on Friday 28 June 2019 at 10.00 am at the Committee Room 5, Harrow Civic Centre, Station Road, Harrow, HA1 2XY.

Present:

Councillor Graham Henson (Chair)

Councillor Mik Sabiers (Vice-Chair)

Councillor Guy Lambert, Councillor Krupa Sheth and Councillor Julia Neden Watts

Apologies for Absence

Councillor Keith Burrows

1. Apologies for absence

Apologies for absence were received from Councillor Keith Burrows and for lateness from Councillor Krupa Sheth.

2. Declarations of interest

RESOLVED: There were no declarations of interest.

3. Minutes of the meeting held on 29 March 2019

RESOLVED: That the minutes of the meeting held on 29 March 2019 be taken as read and signed as a correct record.

4. Appointment of Chair, Vice Chair, Audit Committee, Chair of Audit Committee and Independent Member(s)

Members noted the membership of the Audit Committee comprised three members of the Authority and the previous difficulties in being quorate. Whilst it was necessary to appoint a Chair of the Audit Committee, who was not also the Chair of the Authority, the Authority itself would discharge the functions of the Audit Committee. The Member appointed as Chair of the Audit Committee would take the Chair during the Authority meeting for audit items.

RESOLVED: That (1) the Authority discharge the functions of the Audit Committee;
(2) Councillor Graham Henson be appointed as Chair of the Authority for the 2019/20 municipal year;
(3) Councillor Mik Sabiers be appointed as Vice-Chair of the Authority for the 2019/20 municipal year;
(4) Councillor Krupa Sheth be appointed as Chair of the Audit Committee for the 2019/20 Municipal Year;
(5) the appointment of Andrea White as the Independent Member of the Audit Committee be re-confirmed to 30 June 2020.

5. Meetings for the Municipal Year 2019/20

RESOLVED: That the following dates of meetings of the Authority and the Audit Committee be confirmed:-

Friday 20 September 2019

Friday 6 December 2019

Friday 24 January 2020 at 11.00am (Audit Committee at 10.00am)

Friday 27 March 2020 at 10.00am

Friday 26 June 2020 at 10.00am (including Audit items)

Friday 25 September 2020 at 10.00am

Friday 4 December 2020 at 10.00am

6. Reconciliations Internal Audit

Members received the final Assurance Report 2018/19 on Reconciliations.

Sarah Hydrie, Internal Auditor, outlined the content of the report, drew Members' attention to the assessment of the Authority on page 11 of the agenda and advised that all recommendations had been implemented or were due to be implemented.

RESOLVED: That the report be noted.

7. Annual Internal Audit Report 2018/19

Members received the Annual Internal Audit Report and Opinion Statement 2018/19.

Sarah Hydrie, Internal Auditor, outlined the content of the report and advised that no significant control weaknesses had been identified through internal audit work conducted during 2018/19. She reported that a qualified IT Auditor had been appointed to the team and could assist with audits if required.

Members welcomed the report and sought clarification on the selection of the two final activities for internal audit review in 2019/20. Jay Patel (Head of Finance) advised that, given the number of projects currently in progress, officers would select the final activities for internal audit later in the year.

Sarah Hydrie thanked colleagues for their work and the collaborative approach taken in carrying out the audit.

RESOLVED: That the report be noted.

8. External Audit Report

Members received the Audit results for the year ended 31 March 2019.

Helen Thompson, External Auditor, Ernst and Young LLP, reported that the detailed work on the audit was well progressed but as pension fund assurances had not yet been received from LPFA's auditors it was not possible to issue the Audit Report or sign the Opinion. She advised that this information was now not likely to be received before mid July so the accounts and letter of representation would need to be signed by the Authority closer to that date. She highlighted a disclosure of £0.5m income and that it was expected that the Authority would be better placed in future years to make an estimate of this income. Jay Patel (Head of Finance) explained to Members that the Authority expected to

receive £0.5 m from SUEZ but, as they had not been provided sufficient detail, an audit trail to account for the sum in 2018/19 would be included as a narrative in the accounts.

In response to a request to shorten the valuation process, Helen Thompson explained that CIPFA required the fair value of assets to be assessed at the balance sheet date and that the Authority did have a large asset site. Discussions with officers were ongoing as to the appropriate level of indexation.

Helen Thompson, referring to page 47 of the agenda, reported that three significant audit risk areas had been identified as a focus for the audit, two of which were to be expected as they related to property. In terms of the audit fee, discussions were ongoing with officers in relation to the fee for additional work undertaken and once agreed it would be submitted to Public Sector Appointments for audit.

In response to a question from the Independent Person in relation to control observations, Emma Beal (Managing Director) explained that this was due to a timing issue and the wish to incorporate all of the clarifications into the final agreements. She also confirmed that two contracts remained unsigned.

RESOLVED: That the report be noted and a further report be submitted to the Audit Committee once the issues in relation to the valuation process of property had been resolved.

9. Risk Register

Members received the report which provided an update on the Authority's Risk Register.

RESOLVED: That the report be noted.

10. Assurance Report

Members received the report which provided 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.

RESOLVED: That the Assurance Statements be noted.

11. Statement of Accounts for the year ending 31 March 2019 - Approval

Members received the report which presented the 2018/19 Statement of Accounts.

Jay Patel (Head of Finance) outlined the contents of the report and responded to questions as follows:-

- In terms of the valuations there were two aspects; the pension liability where auditors were awaiting assurance from the LPFA's auditors and the property valuation where an indexation exercise would result in adjustments to the accounts. As these were non cash items they did not affect the service or the way it was delivered and over 25 years the adjustments would level out to zero;
- In terms of ongoing valuation exercises, Jay Patel explained that he would seek to find a pragmatic solution with the auditors with regard to the annual valuation exercises with a view to minimising unnecessary costs and work.

- The variance in Employees figures (Page 104 refers) was due to the pension fund valuation of the contribution to pay compared to the actual contributions paid. Once again these were a non-cash accounting adjustment.

RESOLVED: That (1) the 2018/19 Statement of Accounts be approved;
 (2) the Chair of the Authority be authorised to approve any changes resulting from the LPFAs' auditors assurance to Ernst and Young expected in mid July 2019;
 (3) the excess reserve disbursement to boroughs be approved.

12. Budget Monitoring Report Period 2

Members received the report which provided an update on financial and operational matters.

RESOLVED: That (1) the current financial position and forecast for 2019/20 be noted;
 (2) the Key Performance Indicators be noted;
 (3) the financial decisions taken under the Scheme of Delegation to Officers be noted;
 (4) the Managing Director, following consultation with the Chair of the Authority and Treasurer, be authorised to introduce a new PAYT rate for gully waste.

13. Health and Safety: Annual Review of Performance in 2018/19 and Plans for 2019/20

Members received the report which reviewed the Authority's Health and Safety arrangements for the year 2018/19 and presented the Authority's Health and Safety Plan for 2019/20.

Sarah Ellis, Operations Manager, outlined the content of the report and advised of the need to go out to the market to appoint a new health and safety adviser, a role currently being undertaken by the London Borough of Hounslow.

A Member commented that the organisational structure chart (page 181 referred) required further consideration in order to reflect the relationship between Members and the Authority.

RESOLVED: That (1) the report be noted;
 (2) the actions taken in the Health and Safety action plan for 2018/19, as set out in Appendix 1 to the report, be noted;
 (3) the Authority's Health and Safety Action Plan for 2019 /20, as set out in Appendix 2 to the report, be approved;
 (4) the new policy documents set out in Appendix 3 to the report be agreed and adopted.

14. Operations Update

Members received the report, noting that there was confidential appendix, which provided an update on the Authority's operations.

Members discussed potentially charging for the disposal of DIY waste and the correlation with fly tipping, noting that there had been an increase in fly tipping generally. Referring to outlying boroughs introduction of charging for the disposal of waste, the Chair advised that this had caused an increase in travel into the borough but this could be controlled if constituent authorities worked together. He suggested that consideration be given to the use of transfer of waste without a licence and also the potential for unintended consequences of charging for the disposal of waste.

RESOLVED: That the report be noted.

15. Projects Update

Members received the report which provided an update on the Authority's efficiency and joint working projects.

Peter Tilston, Projects Director, outlined the content of the report and confirmed that there was variable 'buy in' to the projects from the authorities. In response to a question, he advised that the data project would have the most impact/difference to boroughs although cash savings would arise from the collections project.

The Chair requested that Members make enquires in their boroughs as to the work underway in terms of the projects outlined in the report and have a discussion with their Environment Director.

Having noted the confidential element of the report it was

RESOLVED: That the report be noted.

16. Contracts Update

Members received the report, noting that there was confidential section, which provided an update on the Authority's various waste treatment arrangements and procurements.

Tom Beagan, Senior Contracts Manager, outlined the content of the report. The Chair stated that there appeared to be a perception that there was an increase in the number of abandoned vehicles and requested a further discussion at the next meeting of the Authority.

Having noted the confidential section of the report it was

RESOLVED: That the report be noted.

17. Waste Minimisation Update and Plan for 2019/20

Members received the Waste Minimisation Plan 2019/20 and details of current and upcoming projects. A poster promoting textile recycling and a competition to win an upcycled wedding dress was tabled and Members were requested to forward details to local community groups.

RESOLVED: That (1) the Waste Minimisation Plan 2019/20 be approved;
(2) the waste minimisation project activities to date be noted.

18. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
19.	Operations Update	Information under paragraph 3 (contains information relating to the

financial or business affairs of any particular person (including the authority holding that information).

20. Projects Update

Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

21. Contracts Update

Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

22. Waste Minimisation Update and Plan for 2019/20

Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

19. Operations Update

RESOLVED: That the appendix be noted.

20. Projects Update

RESOLVED: That the appendix be noted.

21. Contracts Update

RESOLVED: That the appendix be noted.

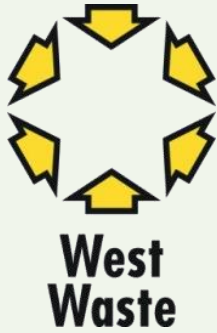
22. Waste Minimisation Update and Plan for 2019/20

Members received a confidential presentation in relation to the Food Waste Recycling Project in West London.

RESOLVED: That the presentation be noted.

The meeting finished at 12.17 pm.

The minute taker at this meeting was Alison Atherton.



INTERNAL AUDIT

Final Assurance Report 2019/20

Business Continuity

6th January 2020

Overall IA Assurance Opinion:

REASONABLE

Recommendation Overview:

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

Review Sponsor:

Emma Beal

Managing Director, West London Waste Authority

Final Report Distribution:

Jay Patel

Head of Finance and Performance, West London Waste Authority

Tom Beagan

Senior Contracts Manager, West London Waste Authority

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



1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was requested by management to be undertaken as part of the 2019/20 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 Business Continuity:**
- If there is no effective strategy in place for business continuity planning, the organisation may not identify risks to service continuity and allocate sufficient resources to bringing back its operations swiftly after a significant event, causing significant business interruption and resulting in reputational, financial, operational and legal consequences;
 - If there is insufficient ownership and communication of the business continuity planning and execution processes, there is a risk that staff and contractors may be unaware of the procedure to follow in the event of a system or service outage, causing significant downtime for the business and potential risks to staff, and resulting in reputational, financial, operational and legal consequences;
 - Without a clear system of reporting and monitoring in place for business continuity planning, there is a risk that critical services or processes may not be reviewed and covered by a business continuity plan, leading to potential service disruption and risks to staff and service users, resulting in reputational, financial, operational and legal consequences; and
 - If business continuity plans are not regularly tested and reviewed, there is the possibility that plans may not be executed correctly or at all due to a lack of ownership or understanding of the process, causing operations to fail which should be brought back swiftly following system outage or service disruption, leading to operational and financial consequences.

2. Background

- 2.1 Effective business continuity is implemented by creating a comprehensive plan of action for the organisation and its services, which enables all business critical components to be accessible to relevant employees in the event of a major disaster or system outage. It is important that organisations consider their key services, processes, customers and systems and tailor their plans to each of these areas, mitigating the risk posed to the organisation's performance by a significant and unforeseen event.
- 2.2 At present, WLWA does not have an organisation wide Business Continuity Plan outlining a process of systems to deal with potential threats to the company and therefore enabling operations to keep going after a potential disaster. Plans are kept at service level and are tailored to the risks of each team and the processes under their remit. These enable any gaps in service continuity to be identified, highlighting any weaknesses and, as a result, provide assurance that the organisation can still run effectively should the worst-case scenario occur.

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 Business Continuity. 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
Policies, Procedures and Strategies	<p>Limited Assurance – The Authority consists of 4 key service areas: Resources, Operations, Contracts and Waste Minimisation. There is no overarching policy or guidance governing business continuity planning for these areas. However, business continuity arrangements are in place for key service areas, specifically those that could be seen as more operationally critical such as Resources, Contracts and Operations. The absence of an overarching policy and accompanying procedures has therefore not resulted in a significant weakness in the overall control environment and the residual risk is not high.</p> <p>Despite the residual risk not being significant, the Authority would benefit from a central, overarching policy or template to set a standard across the organisation for business continuity planning. Areas could include officer responsibilities, review and testing schedules for plans, resource requirements, risk assessment of services or functions, and lines of communication. Procedural guidance would also assist officers with the production and review of business continuity arrangements, but such guidance could be incorporated into an overarching template.</p>
Roles and Responsibilities	<p>Reasonable Assurance – Responsibilities for business continuity planning across the organisation are contained within job descriptions, either as explicit duties or within a wider context of responsibilities. It is the responsibility of management of each of the 4 key service areas to ensure proper governance and planning arrangements are in place for their respective area. At a corporate level, the Managing Director is assigned with overall responsibility for ensuring that the organisation is monitoring and assessing its business continuity needs and arrangements.</p> <p>Within the business continuity documents in place for key service areas, key contacts have been specified for critical areas that are required to be maintained during an unforeseen event. In the business continuity plan (BCP) for Finance, an officer is assigned responsibility for each critical task, so that contingency arrangements can be managed in a timely manner. Tasks are not split in this way for the Operations business continuity plans as these are more ad-hoc arrangements.</p> <p>Lines of communication are generally in place in the business continuity documents provided, accounting for operational staff and the need to keep chief officers informed of the outcomes following an event. However, there is no formalised reporting line in place specifying who should be informed and consulted during the planning and execution phases of business continuity plans.</p>
Reporting and Monitoring	<p>Reasonable Assurance – The creation and implementation of business continuity plans is not formally monitored across the organisation at a senior management level. Instead, it is the responsibility of service management to create, implement and report back.</p> <p>Higher-level oversight to scrutinise and monitor the plans could be improved, although the service areas that are essential to the daily operations of the organisation are covered by contingency planning arrangements and the results of these are fed back to key stakeholders, including Chief Officers and contractors.</p>

Scope Area	IA Assessment of WLWA
<i>(Reporting and Monitoring – cont'd)</i>	<p><i>(Reporting and Monitoring – cont'd)</i></p> <p>It was noted during testing that key operations utilise messaging services to keep staff, contractors and other officers up to date in the event of an incident. This enables early awareness of issues to be raised and business continuity measures to be implemented at short notice and even out of hours.</p> <p>Risks to business continuity are assessed at a strategic and operational level, being captured within risk registers. There is also a clear link between the risks that have been assessed and the plans that are in place for key service areas, sites, and contractors.</p> <p>For the documents that are in place, each contains contact information for contractors and staff who would need to be consulted to keep the critical areas of the business running during an unforeseen event.</p>
Plan Testing and Training	<p>Reasonable Assurance – There is no set standard or requirement in place at the organisation for the frequency of testing or review of business continuity plans. This aspect is kept at an operational level and is specified in the formally documented business continuity plan for one of the service areas.</p> <p>A testing schedule is not consistently implemented across the organisation to ensure that information contained within such plans remains accurate and current. Formal testing of plans should generally consist of checking that phone numbers for key contacts are correct and working, that backup offices or sites can be utilised at short notice and that the resources required to implement plans have been accurately captured.</p> <p>We saw evidence, which shows that the documents provided for key service areas has been reviewed in the last 12 months. Further, one of the plans identified that there was no testing required, where the tasks involved with ensuring continuity are conducted using cloud-based servers, which are used on a daily basis and can be accessed on any internet-enabled device. Testing has occurred on a regular basis for operational sites, where incidents such as fires occur frequently. There is also evidence that the results of such incidents are fed back to key stakeholders for future learning.</p> <p>Overall, the business continuity documents in place showed consideration of staffing and resource requirements and alternative sites or offices to continue operating at short notice, although there were some disparities in the way that continuity arrangements have been documented between service areas.</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, Procedures and Strategies

- 4.1.1 Prior to testing, we sought to identify whether the Authority has in place any overarching documents to set the requirements and expectations for business continuity planning.
- 4.1.2 It was found that there is no set policy or overarching document that covers business continuity, and, instead, managers of the 4 service areas are responsible for the creation and implementation of plans. Whilst there is no central standard in place, we found that service areas that are critical to the daily functioning of the organisation (i.e. Resources, Contracts and Operations) were covered by business continuity plans, demonstrating that there is no significant residual risk due to gaps in the control environment.
- 4.1.3 The Resources team have in place a formally documented business continuity plan, which adequately captures the risks to its processes and the recovery processes to mitigate these. Due to the nature of this document, it could be used as a template for the remaining 3 service areas to conform to. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.1.4 Following a review of the business continuity planning documents we found there is no specific guidance in place to assist management in creating and executing business continuity plans within their respective areas. In line with para. 4.1.3, the plan that was provided for the Resources service could be enhanced and used as a template to guide managers within the remaining 3 service areas. Any guidance should direct service management to consider the following aspects:
- Responsibilities for creating, approving and reviewing the plan;
 - A risk assessment of functions;
 - The continuity processes involved;
 - Staff and resource needs to execute the plan;
 - Communication and storage of plans;
 - Reporting lines between operational staff, service management and senior management; and
 - A schedule for testing components within the plan for relevance and accuracy.

As a result, the suggestions listed above form part of the recommendation raised in para 4.1.3 (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.2 Roles and Responsibilities

- 4.2.1 Testing identified that responsibilities for business continuity planning are held at an operational level, with service management being responsible for ensuring that continuity arrangements have been considered for their respective areas. These responsibilities were found to be contained within job descriptions for 3 out of 4 service managers, either explicitly referenced or implied as part of their wider responsibilities. For the services that are considered as more critical to the daily functioning of the organisation, responsibilities were shown to be contained within the job descriptions for those service managers.
- 4.2.2 The BCP for the Resources service was found to contain key lines of communication, incorporating officers at an operational level, as well as identifying the need to keep Chief Officers informed should initiation of the plan be required.

4.2.3 The continuity documents for the Operations service contain specific contact information for operational staff at the constituent Borough Councils and the various waste sites, distinguishing first and second points of contact at each, where applicable. This information was distributed as part of contingency planning for the Christmas 2018 period, with plans to keep this updated for other peak periods such as Easter, but has not been formalised as part of a specific or organisation-wide BCP. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.2.4 Review of the business continuity arrangements for the Resources and Operations services found that decision-making responsibilities were specified within them. This includes the officer responsible for each continuity/ recovery process within the Finance BCP and the duty officers over the peak season for Operations. Although these arrangements are extensive, the Operations plans do not formally document criteria for initiating backup waste facilities, or when to contact relevant personnel during peak periods. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

4.3 Reporting and Monitoring

4.3.1 Review of meeting minutes from WLWA Officers and Management meetings found that business continuity arrangements had not been discussed from a planning perspective. Instead, evidence was provided to show that the outcomes of incidents affecting business continuity had been reported to Chief Officers and shared amongst key stakeholders, including contractors, officers from constituent Borough Councils, and members of the public.

4.3.2 Whilst it would not be necessary to consider business continuity at every Officer or Management meeting, there should be controls in place to provide a high level of oversight and monitoring to ensure appropriate plans are in place across the organisation and that each has been reviewed and tested, at least annually. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

4.3.3 Our testing of documentation found that risk assessment occurs at a strategic and operational level in order to identify which services, facilities and processes require business continuity plans. At an operational level, the Resources BCP has formally assessed and documented its critical services, putting in place mitigating actions accordingly. For Contracts and Operations, risks have been captured in a risk register with each risk having corresponding management actions. From these actions, operational BCPs have been put in place, such as implementing alternative waste sites in the event that a site becomes unavailable.

4.3.4 In the Resources BCP, there is a section for 'Key Contacts', which holds a comprehensive list of operational staff and contractors, including their contact details, in the event that they should be consulted during an unforeseen event. Review of the document properties found it to have been created within the last 12 months, demonstrating that the details have been recently reviewed.

4.3.5 For Operations, contact details are kept on a master spreadsheet and evidence showed its distribution to relevant contacts to ensure continuity of services over peak periods, such as Christmas 2018, including plans to keep this updated for Christmas 2019 and other peak periods. Further, Operations hold a list of alternative waste facilities that can be utilised in the event of a site not being available. A notable practice was identified where WhatsApp groups are used by officers, at different waste sites, to promote information sharing and raising early awareness of potential issues. We consider this to be good practice (refer to **Notable Practice 3** in the Management Action Plan at **Appendix B**).

4.4 Plan Testing and Training

- 4.4.1 In the Finance BCP, testing arrangements are included as a dedicated section for each of the critical functions and recovery processes. 4 critical functions had been identified in total: IT, office space, supplier payments and finance staffing. Each of these critical areas has a specified testing arrangement. Due to the implementation of working from cloud-based servers, the risks associated with the continuity processes for each areas are mitigated and testing of these functions is therefore not required.
- 4.4.2 As referenced in paras 4.2.3 and 4.3.5, the business continuity arrangements in place for the Operations service includes a listing of contacts at each of the key operational sites, constituent Borough Councils and other key contractors, as well as a listing of alternative waste facilities. As well as these documented contacts and sites (created in January and April 2019 respectively), there is no formal provision for the testing and review of the arrangements.
- 4.4.3 We found that plans are tested on an ad-hoc basis but due to the frequency of incidents such as fires, etc. testing is actually occurring on a regular basis. It would be beneficial to implement a more formal schedule of testing for the documents and plans held across the organisation. Testing should include a review of the list of personnel and their contact details to ensure they are correct, alongside a physical check that phone numbers or email addresses are working. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).

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 Contracts Manager, whose advice and help were gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Nick Cutbill
Senior Internal Auditor

Audit support was provided by: Sonal Patel
Internal Auditor

This audit was reviewed by: Jenia Islentsyeva FCCA, CISA
Principal Internal Auditor

Thank you,



Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	<p>Management should ensure there is a central policy/ template in place, which sets the required standard for documenting and reviewing BCPs for each key service area which include:</p> <ul style="list-style-type: none"> • Responsibilities for creating, approving and reviewing plans; • A risk assessment of functions; • Continuity processes and criteria for initiation; • Staff and resource needs to execute the plan, including out of hours arrangements; • Communication and storage of plans; • Reporting lines across the organisation and stakeholders; and • A schedule for testing components of the plan. <p>(para refs. 4.1.3, 4.1.4, 4.2.3, 4.2.4 and 4.4.3).</p>	<p><i>If there is no standard practice in place for the creation, review and approval of business continuity plans, there is a risk that plans may not be created and monitored consistently for critical service areas, resulting in a loss of service functionality during an unforeseen event causing operational, financial and reputational consequences.</i></p>	<p>MEDIUM</p> <p>●</p>	<p>TREAT</p>	<p>Management will implement a policy or template for the documentation and review of business continuity arrangements, as per the recommendation.</p>	<p><i>Head of Finance</i></p> <p><i>Jay Patel</i></p> <p><i>31st March 2020</i></p>

*Please select appropriate Risk Response - for Risk Response definitions refer to **Appendix C**.

APPENDIX A (cont'd)

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
2	Management should ensure that there is sufficient high-level oversight and monitoring of business continuity planning, ensuring that service management have implemented sufficient business continuity plans and that these have been regularly reviewed for accuracy and relevance (para ref 4.3.2).	<i>If there is insufficient oversight of business continuity planning, there is a risk that critical services will not be assessed and planned for, leading to a loss of functionality during an unforeseen event and resulting in operational, financial and reputational consequences.</i>	MEDIUM ●	TREAT	Management will implement annual monitoring, review and oversight of business continuity planning.	<i>Head of Finance</i> <i>Jay Patel</i> <i>31st March 2020</i>

*Please select appropriate Risk Response - for Risk Response definitions refer to [Appendix C](#).

APPENDIX B

Good Practice Suggestions & Notable Practices Identified

No.	Observation/ Suggestion	Rationale	Risk Rating
3	The use of WhatsApp groups was found to be an innovative way of maintaining contact with key stakeholders and communicating issues at waste sites at an early stage, including outside of working hours, in preparation for continuity arrangements to be initiated.	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	NOTABLE PRACTICE ●

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

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

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the Authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the Authority and the reporting of financial management; and
 - the performance management of the Authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.





3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

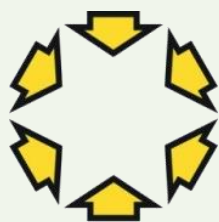
APPENDIX C (cont'd)

RISK RESPONSE DEFINITIONS

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

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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



**West
Waste**

INTERNAL AUDIT

Final Assurance Report 2019/20

Performance Management

6th January 2020

Overall IA Assurance Opinion:

SUBSTANTIAL

Recommendation Overview:

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

Review Sponsor:

Emma Beal

Managing Director, West London Waste Authority

Final Report Distribution:

Jay Patel

Head of Finance and Performance, West London Waste Authority

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



1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was requested by management to be undertaken as part of the 2019/20 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 Performance Management:**
- If there is no formal strategy or process in place for clearly establishing criteria for success, and this is not communicated across the organisation, it could lead to inconsistencies between expected and actual performance, leading to operational and financial consequences for the Authority;
 - If there is no reliable method in place for measuring progress against the Authority's key objectives, it could result in incorrect data being relied upon and uninformed decision-making, resulting in operational and financial consequences for the Authority;
 - If key performance information about the Authority's operations is not monitored and reported appropriately, it may result in significant deviations from expected performance going unnoticed by senior management, leading to operational and financial consequences; and
 - If swift action is not taken to address deviations from expected performance, and action taken is not proportionate to the size and risk appetite of the Authority, it could lead to inconsistent working practices and underlying issues may go unaddressed, resulting in financial loss or operational and reputational consequences.

2. Background

- 2.1 Effective performance management involves the setting of objectives and/ or standards and measuring performance against these to ensure that the organisation's goals are being achieved. If done correctly, this creates a work environment in which people are enabled to perform to the best of their abilities. The organisation's strategic aims, objectives and goals should be filtered down to departmental, team and individual levels.
- 2.2 WLWA's corporate performance management involves the management team and chief officers considering, on an annual basis, targets and their relevance to the authority. There are currently 17 key performance indicators (KPIs) in place which are reviewed at Authority meetings, generally retained at the same level each year and are measured through reports given to management.
- 2.3 To ensure that performance management produces meaningful outcomes for the organisation, the range, relevance and targets of performance indicators should be regularly considered and adjusted. If objectives become obsolete or the targets become too easy or hard to achieve, the organisation would not be able to accurately measure the achievement of its strategic aims.

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 Performance 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 of WLWA
Policies, Procedures and Objectives	<p>Substantial Assurance – The organisation has an overarching Joint Municipal Waste Management Strategy in place, published in September 2005 (updated in 2009), which informs its long-term objectives and the methods for achieving them. This Strategy acts as the standard against which the Authority should operate, in the absence of a more specific corporate Performance Management Policy and accompanying procedural guidance.</p> <p>A Performance Management Policy is in place, although it refers specifically to the management of staff performance as opposed to monitoring against corporate objectives. The policy does, align with corporate objectives by specifying that performance objectives should be set for each member of staff in accordance with the Authority’s objectives, as set out in the 2017-2020 Business Plan and other relevant documents. Testing was not performed specifically against the implementation of this policy as this was covered in the 2018/19 Twyford Fraud Incident assurance review and subsequent annual follow-up.</p> <p>Although there is no corporate Performance Management Policy and procedural guidance in place, the function of monitoring performance against corporate objectives is conducted consistently. Further, with performance measured against objectives in the Strategy and 3 year Business Plan (which is reviewed annually), these documents act as the standard against which the Authority is accountable.</p> <p>Our testing included conducting a benchmarking exercise, which also identified that objectives within the Strategy align with waste objectives in the Greater London Authority Environment Strategy (May 2018) and objectives of other London waste authorities.</p>
Methods and Processes for Measuring Performance	<p>Substantial Assurance – Directing each of the 4 service areas is the 2017-2020 Business Plan, which sets clear SMART (Specific, Measurable, Achievable, Relevant and Time-bound) objectives, in line with the Strategy. These objectives further lead to action plans incorporating the 4 service areas, showing a flow of objectives from top down and bottom up.</p> <p>The Authority’s KPIs are not formulated using a particular framework or accepted standard. However, the spectrum of KPIs covers the 4 areas of a Balanced Scorecard approach (Financial, Customer, Internal Processes, and Learning & Growth), showing that the most important aspects of the business are monitored. Further, the KPIs are SMART in nature, ensuring that the most relevant metrics have been selected in the 4 Balanced Scorecard areas. Data underpinning each KPIs is documented clearly, concisely and accurately, meaning that progress against each KPI can be easily updated each month and reported at management and Authority meetings.</p> <p>Job descriptions for service management roles specifically define accountabilities for performance management, showing alignment of duties to the Strategy, Authority objectives and monitoring of performance. Therefore, the existence of these accountabilities mitigates the risk of a lack of a Corporate policy and accompanying procedural guidance resulting in a low residual risk.</p>

Scope Area	IA Assessment of WLWA
Reporting and Monitoring of Performance Data	<p>Substantial Assurance – Monitoring of progress against KPIs occurs on a monthly basis, where data is inputted onto a dedicated spreadsheet. Monthly figures are combined for cumulative totals and averaged where appropriate to give a forecast against the financial year target for each KPI. Although not always explicitly referred to, KPIs and their underlying data form a consistent part of meetings at a management level within the organisation. Business as usual updates are given by managers and areas for improvement are also identified. These discussions incorporate each of the areas captured by KPIs, such as ‘education’ or ‘service delivery’.</p> <p>Updates to corporate KPIs are presented quarterly at each Joint Committee meeting as part of the budget monitoring report authored by the Head of Finance and Performance. The budget monitoring report is firstly considered at WLWA Officers meetings and is then presented at Joint Committee meetings following Chief Officer approval. The report contains areas for commentary to provide justification and context for the KPI levels, highlighting themes for Member awareness and consideration. This aspect could be expanded upon to give a better view of historic, current and future performance, although reporting and monitoring is consistent overall.</p>
Remedial Action	<p>Reasonable Assurance – Every March, the organisation’s KPIs are reviewed for appropriateness and the target levels are set for the financial year ahead. Target levels are set against industry standards, past experience or objectives in the Strategy. Each KPI is assigned a red, amber or green rating to indicate whether performance is forecast to be in line with the annual target and whether remedial action is required. However, it is unclear what constitutes a red, amber or green rating and, in some instances, underperformance did not trigger an amber or red rating, instead remaining green.</p> <p>As referred to in the Reporting and Monitoring of Performance Data scope area summary, KPIs are accompanied by explanatory comments to show where there is positive or negative direction of travel and where remedial action is required. This is a consistent feature across the set of KPIs reported at each Joint Committee meeting and there is evidence to show that issues have been identified and acted upon, bringing KPI forecasts back in line with the annual target.</p> <p>However, comments are not provided for all KPIs or, as a minimum, all of the KPIs that are underperforming. Members and Officers may not therefore clearly identify historic, current and future performance of a KPI’s forecast against the annual target level. Further, these comments also enable learning points or good practice to be captured and reported, but this does not feature either.</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, Procedures and Objectives

- 4.1.1 The Authority has in place an overarching long-term strategy, the Joint Municipal Waste Management Strategy, which sets the organisation's objectives. This strategy was last updated in 2009 and is in place until 2020, when it is due to be reviewed for appropriateness. The Strategy was found to be easily accessible to staff and members of the public via the website. There is no specific performance management policy in place to govern the process of monitoring performance against these objectives in the Strategy. Instead, there is a Performance Management Scheme in place for staff, which ensures that individual staff objectives are set in alignment with corporate objectives. The Scheme has not, however, been published on the intranet. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 3** in the Management Action Plan at **Appendix B**).
- 4.1.2 Review of documentation found no reference to procedural guidance to assist officers in conducting the corporate performance management function. There is a section within the Performance Management Scheme for staff, which only provides guidance for management of staff. Job descriptions contain clear duties and responsibilities around performance management, although this does not wholly substitute formal procedural guidance. Despite this, the monitoring and scrutiny of progress against corporate objectives and KPIs, and the fact that the performance management process is conducted consistently, renders the absence of procedure documents a low risk. As a result, we have raised a recommendation aimed at mitigating the minor risk in this area (refer to **Recommendation 4** in the Management Action Plan at **Appendix B**).

4.2 Methods and Processes for Measuring Performance

- 4.2.1 Testing identified that there is a clear link between the Strategy, 2017-2020 Business Plan and individual service plans. Objectives in the Business Plan were found to be SMART in nature, in addition to the set of corporate KPIs, showing that objective setting and performance monitoring is relevant and concise. A pre-defined framework has not been adopted for selecting appropriate KPIs. However, we conducted a benchmarking exercise and identified that the range of KPIs conforms with the 4 key areas of a Balanced Scorecard approach: Financial, Customer, Internal Process, and Learning & Growth. This shows that the organisation is capturing and monitoring key aspects of their operations.
- 4.2.2 Prior to the beginning of each new financial year, the set of corporate KPIs is reviewed and set for the coming year. Review of Joint Committee meeting documents identified that the revised set of KPIs is presented to Members with justification for any changes in annual performance targets, or new KPIs. Justification includes drawing upon professional judgement, reviewing the previous year's results and aligning with industry standards.
- 4.2.3 Our testing included a review of the data that underpins KPIs. Data was found to be captured on an Excel spreadsheet, with a range of formulae used to calculate cumulative totals and averages, which inform the expected performance for the year. A random sample of 5 KPIs was selected for testing and underlying data was provided for each. In all 5 sets of data provided, it was clear that the data is collated and monitored on an ongoing, monthly basis. The Authority also uses a system called Power BI (a business analytics tool) which enables management information to be captured, interpreted and monitored outside of more formal KPI monitoring. For each of the sets of data, the relevant KPIs accurately reflected the underlying figures.

4.3 Reporting and Monitoring of Performance Data

- 4.3.1 The last 3 sets of meeting minutes were obtained for Joint Committee, Officers and Management meetings. Review of the minutes found there to be consistent discussion of different KPIs. At Joint Committee level, the complete range of KPIs was reported and considered. At Officers and Management meetings, different themes were discussed at each meeting, such as current health and safety performance and waste collection rates. One particular discussion point noted throughout Management meetings was staff training needs, which feeds into KPI 16. Each of these discussions reflects upon the patterns and trends across the different types of corporate KPIs.
- 4.3.2 Further to para 4.3.1, clear evidence was provided to show that progress against KPIs is monitored consistently, with the master KPI spreadsheet updated on a monthly basis and presented quarterly at Joint Committee meetings. The KPI reports form part of the Budget Monitoring Report presented by the Head of Finance and Performance, showing the historical, current and target performance of each KPI. In addition, areas of the report provide context and justification for current KPI levels. This is not utilised to full effect and could be expanded upon, as referred to in para 4.4.1, although we found the general consistency of reporting KPI progress is strong.

4.4 Remedial Action

- 4.4.1 A review of the Public Report Packs for the last 3 Joint Committee meetings found that all corporate KPIs have been assigned a red, amber or green rating. In the March 2019 meeting, 5 KPIs were rated amber and 1 was rated red, indicating under-performance in these areas towards the end of the 2018/19 financial year. It was noted that the Public Reports Pack did not include explanatory comments for 2 of the amber KPIs, although commentary was provided in the internal version of the document. Further, a review of comments on KPIs throughout each of the reports for March, June and September 2019 found them to be limited. They did not explain historic performance, highlight areas of good practice or propose remedial action to bring the forecast back in line with the annual target. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 1** in the Management Action Plan at **Appendix A**).
- 4.4.2 Following revision of the KPIs and their target levels for the 2019/20 financial year, the Budget Monitoring Report for the June 2019 Joint Committee meeting showed only KPI 5 to be an amber rating, with all other KPIs rated as green. Whilst this was at an early point in the year, there was a positive direction of travel noted, where the amber KPI figure had improved in the September 2019 Budget Monitoring Report. This was explained as being due to a single, but high value, debt affecting the overall figure. Reduction of the KPI figure had brought the forecast closer to the 2019/20 target, however the KPI was changed to green despite the forecast remaining over the target level.
- 4.4.3 Further to para 4.4.2, our review of the KPIs reported during Sept'19 found that KPI 4 was showing as green, but had been forecast as falling short of its 40% annual target by 8%. In addition, KPI 2 was forecast to be failing to achieve the 2019/20 target, but also remained green. In the underlying monitoring spreadsheet for KPI data, updated in Nov'19, our analysis found that 4 out of 18 KPIs (22%) were forecast as not achieving the annual target, but were rated as green. There is no clear method for demonstrating what constitutes a red, amber or green rating for a KPI's forecast. This makes it difficult to identify KPIs that require remedial action to bring them back on course to meet their annual target. As a result, we have raised a recommendation aimed at mitigating the risk in this area (refer to **Recommendation 2** in the Management Action Plan at **Appendix A**).

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 Contracts Manager, whose advice and help were gratefully appreciated.

6. Internal Audit Contact Details

This audit was led by: Nick Cutbill
Senior Internal Auditor

Audit support was provided by: Sonal Patel
Internal Auditor

This audit was reviewed by: Jenia Islentsyeva FCCA, CISA
Principal Internal Auditor

Thank you,



Sarah Hydrie CMIIA, CIA
Head of Internal Audit & Risk Assurance

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Risk Response	Management Action to Mitigate Risk	Risk Owner & Implementation date
1	Explanatory comments should be provided against each KPI to provide a clear snapshot of the direction of travel, sharing of good practice, and proposals for remedial action for underperforming KPIs (para ref. 4.4.1).	<i>If there is a lack of explanatory comments and proposed remedial actions for KPIs, there is a risk that underperformance may not be identified and management may fail to implement appropriate remedial actions, resulting in operational, financial, reputational or legal consequences.</i>	MEDIUM ●	TREAT	Management will implement explanatory comments against the KPIs to highlight direction of travel, good practice, and remedial action.	<i>Head of Finance Jay Patel 31st March 2020</i>
2	Thresholds or criteria should be implemented to determine the red, amber or green rating of a KPI's forecast against the annual target, so that underperformance can be easily identified and rectified (para ref. 4.4.3).	<i>If there is no consistent method in place to determine the red, amber or green rating of a KPI's forecast against its annual target, there is a risk that underperformance may not be clearly identified, leading to a lack of remedial action and resulting in operational, financial, reputational or legal consequences.</i>	MEDIUM ●	TREAT	Management will establish criteria for red, amber and green ratings for KPI forecasts.	<i>Head of Finance Jay Patel 31st March 2020</i>

*Please select appropriate Risk Response - for Risk Response definitions refer to **Appendix C**.

APPENDIX B

Good Practice Suggestions & Notable Practices Identified

No.	Observation/ Suggestion	Rationale	Risk Rating
3	The 2019 Performance Management Scheme should be communicated to staff via the organisation's intranet (para ref 4.1.1).	<i>If the Performance Management Scheme is not communicated to members of staff, there is a risk that they may not be aware of the standards expected of them, leading to a misalignment between personal and corporate objectives, resulting in operational and financial consequences.</i>	LOW ●
4	Management should consider implementing procedural guidance to assist officers in collating, reviewing and monitoring performance management data (para ref 4.1.2).	<i>If procedural guidance is not in place for performance management, there is a risk that performance data may not be obtained and stored accurately, and could cause continuity issues in the event of officer absence, resulting in operational consequences.</i>	LOW ●

INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS

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

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - establishing and monitoring the achievement of the Authority's objectives;
 - the facilitation of policy and decision-making;
 - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - the financial management of the Authority and the reporting of financial management; and
 - the performance management of the Authority and the reporting of performance management.

2. **Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.





3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

APPENDIX C (cont'd)

RISK RESPONSE DEFINITIONS

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

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

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

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WEST LONDON WASTE AUTHORITY

AUDIT COMMITTEE

24 January 2020

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 regularly throughout the year, 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. Appendix 1** provides the latest risk register which was updated at the latest Chief Officers' meeting. In overall terms, the risk register identifies 13 Amber risks facing the Authority and the mitigating actions to reduce the risk. All but 2 of the risks have been mitigated to a Green status. A brief explanation of the Amber risks are provided below:
 - **Brexit** – The outcomes from the final Brexit deal are unclear. However, there may be a number of consequences which are likely to manifest in financial implications (i.e. market price). These could be significant and reserves are being set aside to mitigate these risks.
 - **Contract Pay Mechanism** – Principally this relates to the scope and complexity contained within the PPP contract. When the contract activities include non-typical or new elements, then there can be areas of contractual ambiguity. These have to be clarified, with legal advice if appropriate and resolved.

5. 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.

6. Legal Implications – There are no legal implications as part of this report.

7. 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.

Contact Officers	Jay Patel, Head of Finance	01895 54 55 11
	jaypatel@westlondonwaste.gov.uk	
	Emma Beal, Managing Director	01895 54 55 15
	emmabeal@westlondonwaste.gov.uk	
	Ian O'Donnell, Treasurer	
	lanodonnell@westlondonwaste.gov.uk	

Risk Register

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 (original score in brackets)			Responsible Officer
			Impact	Probability	Rating		Impact	Probability	Rating	
1. Brexit will bring turbulence and unanticipated change to UK waste management.	Increased cost, lack of treatment capacity in UK, waste stockpiling, reduced haulage options. HRRC closure, increased landfill.	Economic	5	3	15	PPP contract with rail haulage for most of the Authorities waste provides significant protection. Bidders will consider Brexit during MRF procurement and Authority will take cost and benefit of price fluctuations. Lack of waste processing capacity on shore UK for materials currently shipped abroad can only be mitigated UK wide by Govt planning and EA flexibility. Additional reserves for increased costs of haulage and treatment of smaller waste streams.	4	3	12	Managing Director
2. Authority decisions may be based on inaccurate or incomplete information	Inappropriate actions or decision making, unnecessary costs, challenge from an interested party, failure to meet objectives and impact on reputation	Political	5	2	10	Manage in accordance with policies and procedures, review P&Ps to ensure they are up to date and robust. Scrutiny processes in place for reporting, reviewing and checking of any financial data by Officers. Policy for handling conflicts of interest involving Members and/or Officers. Internal management team meetings, Chief Officer's meetings, Borough Partnership meetings review Authority papers. Audit Committee established with internal and external audit governance framework. Key performance indicators are reported to the Authority.	5	1	5	Managing Director
3. 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	Senior Contracts Manager
4. 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. Procurement fraud training rolled out in 2016 and declarations of interest extended to all staff. Cash facilities removed completely and card procedures reviewed.	4	1	4	Head of Finance and Performance
5. 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. This includes any implications resulting from Brexit.	3	1	3	Head of Finance and Performance
6. 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. Recent insurance procurement has shown that it is increasingly difficult to attract insurers to bid for the provision of cover. Therefore reserves will be built up to deal with loss of any insurance cover in coming years.	5	1 (2)	5 (10)	Head of Finance and Performance
7. 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. Placement facility to deliver better returns. Opportunities to improve returns are reported to Chief Officers/Authority e.g. office procurement, transfer station purchase	3	1	3	Head of Finance and Performance
8. 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 and key Authority managers. Monthly contract meetings, training and familiarisation with payment mechanisms. Periodic billing file audits	4 (5)	3 (1)	12 (5)	Head of Finance and Performance
9. 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 out sourced 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.	4	1	4	Head of Finance and Performance
10. 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 2020	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. Projects identified in the Business plan aim to provide a fuller picture.	4	2	8	Head of Finance and Performance
11. 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. Networking with contractors and public sector bodies on expected changes to follow the Resources and Waste Strategy. Nawdo, Lednet and Widp meetings. Where possible costs will be built into the budgeting process or reported through budget monitoring and dealt with through reserves.	4	2	8	Senior Contracts Manager
12. 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

Risk Register

Risk Area "There is a risk that..."	Analysis of Risk "Which will result in..."	Type	Assessment of Risk <i>(original score in brackets)</i>			Management Actions Implemented or Planned (in bold)	Assessment of Risk after mitigations <i>(original score in brackets)</i>			Responsible Officer
			Impact	Probability	Rating		Impact	Probability	Rating	
13. 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 contracted in. Periodic internal audit assurance. Annual Action Plans are 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/ Impact Rating

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

Likelihood Classification

1. Rare - May occur only in exceptional circumstances (0-5%)
2. Unlikely- Could occur at some time (6%-20%)
3. Possible - likely to occur (21%-50%)
4. Likely-Will probably occur in most circumstances (51%-80%)
5. Almost Certain - Expected to occur in most circumstances >80%)

Risk Rating/Scoring = Impact x 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

West London Waste Authority Draft Audit Planning Report

Year ended 31 March 2020

24 January 2020

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Building a better
working world

Agenda Item 6
Pages 39 to 80

Audit Committee
West London Waste Authority
Unit 6, Britannia Court, The Green
West Drayton
UB7 7PN

24 January 2020

Dear Audit Committee Members

Draft Audit Planning Report

Our planning is underway for 2019/20 and we are pleased to attach our Draft Audit Planning Report which sets out our initial consideration of how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 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 draft report with you on 24 January 2020 as well as understand whether there are other matters which you consider may influence our audit,

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

Enc

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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). 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 April 2018)" 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 2019/20 audit strategy



Overview of our 2019/20 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 misstatement of levy income through fraud or error	Fraud risk/ Significant risk	No change in risk or focus	We have considered the potential for error or deliberate manipulation of the waste tonnage data which underpins the income from levies.
43 Valuation of Property, Plant and Equipment	Significant risk	No change in risk	<p>During 2019/20, the Authority is proposing to undertake a full valuation of its Property, Plant and Equipment and material assets are expected to be brought into use including two lease sites and a new office space.</p> <p>At 31 March 2019, the asset values of £221 million represent a significant proportion of the Authority's balance sheet, with a risk that even a small fluctuation in value could have a material impact on the Comprehensive Income and Expenditure Statement and on asset carrying values.</p>

Overview of our 2019/20 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
Pension liability valuation	Inherent risk	No change in risk	The Authority's pension fund deficit is a material estimated balance disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £7.2 million. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf. We will liaise with the auditors of the pension fund to gain assurance over the information supporting this balance.
PPP liability	Inherent risk	No change in risk	The Authority's PPP liability is a material liability which is calculated by a modeller into which the Authority inputs assumptions. The assumptions entered into the model are a form of management estimate.
IFRS 16	Area of audit focus	New focus	IFRS 16 - Leases comes into effect for Local Authority Accounts starting with 1 April 2020. At the time of our 2018/19 final audit work, the Authority had not conducted any preliminary work to position itself for the standard's impact. A detailed impact assessment will therefore need to be carried out for the necessary disclosures to be included in the 2019/20 accounts in accordance with IAS 8.

Overview of our 2019/20 audit strategy

Materiality

Planning
materiality

£1,176K

Planning materiality represents 2% of the prior year's gross expenditure on provision of services, consistent year on year.

Performance
materiality

£882K

Performance materiality represents 75% of planning materiality, consistent year on year.

Audit
differences

£59K

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 £59,000, which is calculated as 5% of planning materiality. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2019/20 audit strategy

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 2020 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:

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- 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.

Overview of our 2019/20 audit strategy

Audit team changes

Key changes to our team



Engagement Partner

Maria is your engagement partner. She will be responsible for signing your financial statements and lead and over see the audit quality and delivery.

Maria is an ICAEW qualified chartered accountant with over 30 years public sector experience.



Manager

Larisa is a manager and will lead the audit team. She will ensure that we deliver all of your external audit requirements in accordance with agreed schedules and co-ordinate our use of specialists in the audit to support the engagement team.

She is an ACCA qualified member with 4 years post qualification experience in a number of sectors.



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02 Audit risks



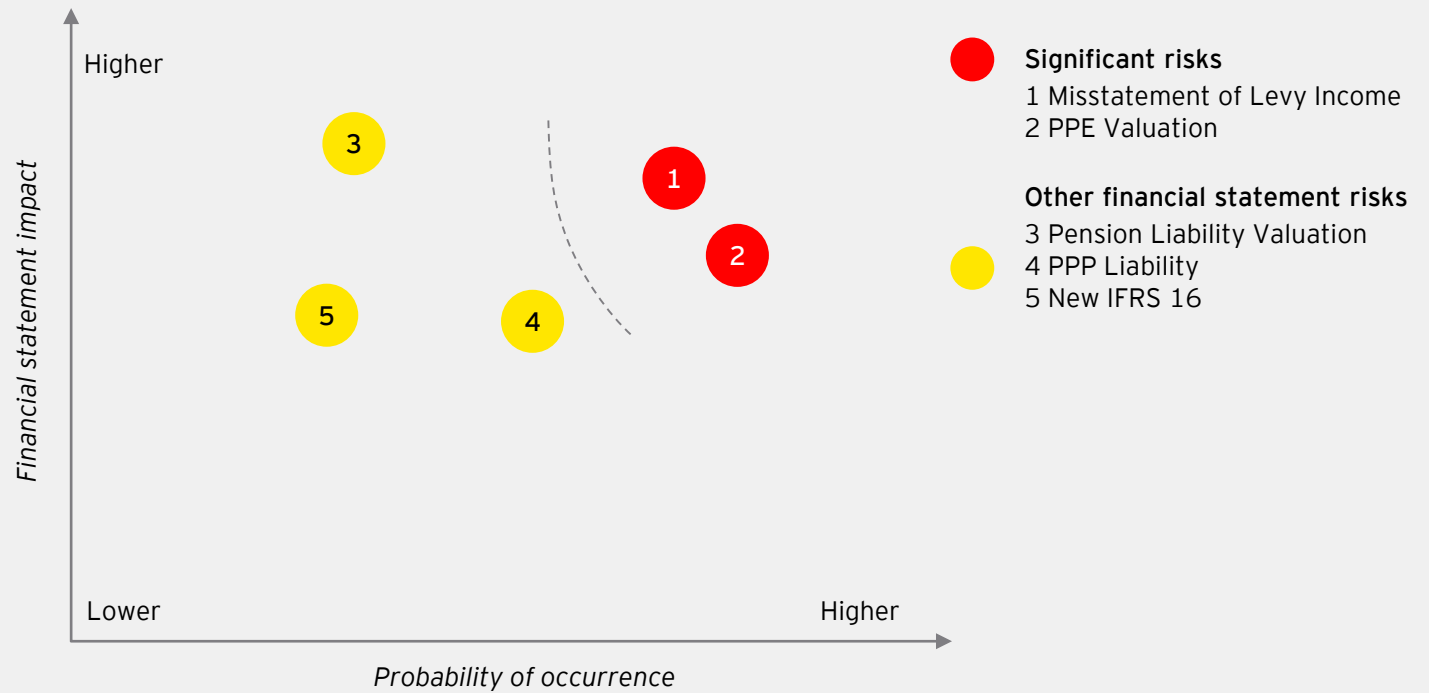
Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2018/19 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 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.

Risk of misstatement of Levy Income due to fraud or error *

What is the risk?

We have considered the potential for error or deliberate manipulation of the waste tonnage data which could result in a misstatement of income from levies.

What will we do?

- ▶ Assess accounting estimates for evidence of management bias.
- ▶ Perform cut off procedures around year end and link debtor testing with income testing.
- ▶ Substantively test the population in accordance with the assessed risk covering tonnage data, including substantive analytical procedures to assess reasonableness of income recorded in the accounts.

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Financial statement impact

Misstatements that occur in relation to the income and expenditure accounts. In particular, we will consider:

Levies on Constituent Councils (2018/19: £59,166k).

Our response to significant risks (continued)

Valuation of Property, Plant and Equipment

What is the risk?

During the year 2018/19, the Authority purchased the freehold for two sites (Victoria Road and Transport Avenue) that were previously leased, thus at 1 April 2019 the value of the leasehold assets was nil.

The Authority undertook a full valuation of assets in 2018/19 and is planning to perform the next valuation in five years' time. In the current year, the Authority is preparing a valuation model for adjusting the asset value using the depreciated replacement cost method. This is the first year such an approach will be used and this implies additional risks from a valuation perspective due to potential errors in the methodology.

Asset values are significant and there is a risk that even a small movement in valuation could have a material impact on the Comprehensive Income and Expenditure Statement and on asset carrying values.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Assess accounting estimates for evidence of management bias;
- ▶ Assess the reasonableness of the Authority's valuation approach and assumptions and the completeness and accuracy of the source data used in the valuation models;
- ▶ Identify whether management has performed an appropriate impairment review and the results have been appropriately considered in the account balances and financial statements disclosures; and
- ▶ Ensure that appropriate and sufficient disclosures regarding the assets valuation are included in the financial statements

Financial statement impact

Misstatements that occur in relation to valuation could affect the year end carrying value of Property, Plant and Equipment (31 March 2019: £220,972).

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.

What is the area of focus/ inherent risk?

What will we do?

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 liability is a material estimated balance and the Code requires that this liability be disclosed on Authority's balance sheet. At 31 March 2019 this totalled £7.2 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 the Authority;
- ▶ Assess the work of the Pension Fund actuaries, 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.

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.

What is the area of focus/ inherent risk?

What will we do?

Public-Private Partnership (PPP)

The Authority has one PPP arrangement with the Suez consortium. This is a PPP for the construction of the Severn Energy Recovery Centre. A liability is recognised as project assets are completed, equal to the fair value of each asset less capital contributions. The total value of the liability was estimated to be £116.5 million as at 31 March 2019.

We will:

- ▶ include a review of the assumptions used in the PPP accounting model to assess whether there have been any changes since our initial review;
- ▶ comment on adjustments, if any, by the Authority; and
- ▶ review the planned entries and disclosures for the Authority's 2019/20 accounts and ensure that they reported in line with the standards.

Audit risks

Other areas of audit focus

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.

What is the risk/area of focus?

Implementation of new accounting standards

IFRS16 - Leases is applicable to local government accounts starting with 1 April 2020.

The objective of IFRS 16 is to report information that faithfully represents lease transactions and to provide a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognise assets and liabilities arising from a lease.

54 The Authority will need to make disclosures in its 2019/20 accounts on its adoption of the requirements of IFRS 16 for financial years commencing 1 April 2020, if relevant. The new standard will eliminate the distinction between operating and finance leases for lessees and it is expected that significant work will be required by officers to identify all of the leases that it has in place at 1 April 2020. Readiness assessment is encouraged to prepare for the upcoming implementation.

What will we do?

- Assess the Authority's implementation arrangements, including its assessment of the expected impact of the standards on the Authority's accounts;
- Test material adjustments to accounting policies made as part of the implementation; and
- Ensure that transition disclosure requirements have been included in the financial statements under IAS 8, where applicable.



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03

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 2019/20 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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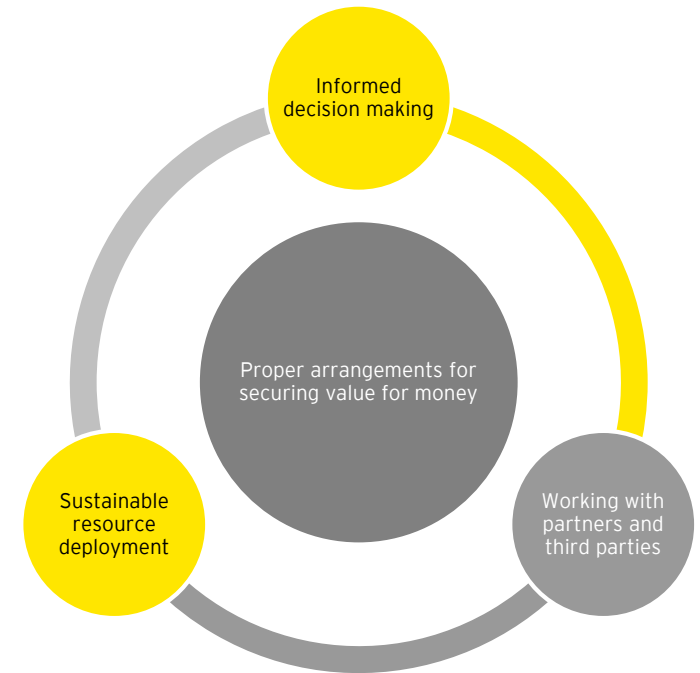
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2019/20 this has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

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. We have not identified any significant risks to our value for money conclusion.





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04

Audit materiality



Materiality

Materiality

For 2019/20 planning purposes, we are using the prior year's final materiality, which was set at £1,176k. This represents 2% of the Authority's prior year gross operating expenses on provision of services. It will be reassessed throughout the audit process. The rationale for this is that the expectations of the users of the entity are focused on the measurement of expenses. 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, 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.



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

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantively testing transactions and amounts.

For 2019/20 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 regularly meet 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.



02



06

Audit team



Audit team

Audit team structure:

EY Actuaries

EY Real Estate

EY Data
Analytics Team

Maria Grindley*
Associate Partner

Larisa Midoni
Manager

Taher Merimi
Senior

Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2019/20 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

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 - Scope to be determined once planning completed.
Pensions disclosure	EY Actuaries and PWC Actuaries

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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 2019/20.

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 scopes.	January - February		
Draft Audit Planning Report presented to the Audit Committee	24 January 2020	Audit Committee	Draft Audit Planning Report
Walkthrough of key systems and processes	27 - 31 January 2020		
Interim audit testing	3 - 7 February 2020		
Year end audit: Account testing	4 - 22 May 2020	Audit Committee	Progress report setting out any changes to the audit planning and approach if applicable.
Year end audit: Audit Completion procedures	29 June 2020	Audit Committee and Authority meeting	Audit Results Report Audit opinions and completion certificates
Completion	July 2020	Audit Committee	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 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.

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 Maria Grindley, 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 your 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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other 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.

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.

Other communications

EY Transparency Report 2019

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 2019 and can be found here:

https://www.ey.com/en_uk/who-we-are/transparency-report-2019



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Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts of opted-in principal local government and police 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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	2019/20	2018/19
	£'s	£'s
Base fee (Note 1)	15,223	15,223
Scale fee variation (Note 2)	TBD	3,600
Total audit	TBD	18,823

All fees exclude VAT

Note 1 - Our 2019/20 fee may well be higher than the planned fee, dependent on the level of work required in relation to the significant risk associated with the valuation of PPE and any other unforeseen issues encountered during the audit. We will assess this as part of our interim audit and discuss the potential impact on the fee with officers.

Note 2 - During the course of our audit, additional work might be required in order to carry out our duties. This work would not have been factored into the core fee and it might result in scale fee variations. In the year 2018/19, the scale fee variation was in relation to PPE valuations and Agresso migration.

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, we will seek a variation to the agreed fee. This will be discussed with the Council 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

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 the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	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.
74 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	Draft Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report




Appendix B

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

Appendix B




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"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Draft Audit Planning Report and Audit Results Report	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 ▶ 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 	Audit results report	
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Management letter/audit results report	

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Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
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"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Draft Audit Planning Report and Audit results report	

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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 activities within the Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, 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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