

**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

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1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review was requested by management to be undertaken as part of the 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
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Thank you,



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

APPENDIX A

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</i> <i>Jay Patel</i> <i>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</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 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.





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