



# INTERNAL AUDIT

***West London Waste Authority (WLWA)***

**Annual Internal Audit Report & Opinion Statement 2019/20**

**Draft for Audit Committee as at 8<sup>th</sup> June 2020**



# Contents

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## 1. Introduction

### 1.1 The Role of Internal Audit

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

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

- 1.2.1 This annual report summarises the main findings arising from the 2019/20 IA assurance work. The report also provides IA key stakeholders, including the Authority's Officers Team and the Audit Committee, with an opportunity to hold the Head of Internal Audit (HIA) to account on delivery of the 2019/20 IA Plan and on the effectiveness of the IA service.
- 1.2.2 The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Authority in meeting the requirements of the Accounts and Audit (England) Regulations 2015.

## 2. Executive Summary

- 2.1 The HIA is pleased to report that delivery of **the 2019/20 IA plan was 100% complete to final report stage by 20<sup>th</sup> March**. This is an achievement for IA and the Authority and highlights the continued collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Authority.
- 2.2 Delivery of the IA plan for 2019/20 has been achieved in a timely manner by applying a fully risk based approach to help focus IA resources on the key risks facing the Authority. In addition, the HIA believes this relative success is predominantly due to the collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Authority. Further details of IA performance can be found at section 6 of this report.
- 2.3 From the work undertaken and from the other sources of assurance referred to in para 3.7:

*It is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control that has been in place at WLWA for the year ended 31<sup>st</sup> March 2020 accords with proper practice, except for the significant internal control issues referred to in para 3.8.*

- 2.4 In total **4** pieces of IA work has been delivered as part of the 2019/20 IA plan. This includes 3 assurance reviews and 1 follow-up review. 2 of the assurance reviews resulted in **SUBSTANTIAL** assurance opinions being provided with the remaining review obtaining a **REASONABLE** assurance opinion. This provides positive assurance to the Audit Committee that IA resource is risk based and appropriate. The IA follow-up review does not provide a formal assurance opinion, with detail included at section 5 of this report.
- 2.5 All 2019/20 **MEDIUM** risk recommendations raised by IA were accepted by the relevant managers/risk owners, with positive action proposed to **TREAT** these risks. Further analysis of the IA assurance levels issued in 2019/20 along with a breakdown of the risk recommendations raised can be found at section 4 of this report.
- 2.6 The table below provides an analytical review of assurance opinions issued by IA over the last 6 years which demonstrates a broadly consistent picture over this period:

Assurance Level	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
<b>Substantial</b>	0	0	0	2	0	2
<b>Reasonable</b>	5	4	3	1	2	1
<b>Limited</b>	0	0	1	1	1	0
<b>No</b>	0	0	0	0	0	0
<b>Totals</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>

- 2.7 Focussing a dedicated IA review on **following-up recommendations** that are due to have been implemented, provides assurance that deficiencies in the control environment have been appropriately remedied. Our work has helped to continue to achieve a positive outcome for the Authority during 2019/20. Specifically, each of the four **MEDIUM** risk recommendations raised in 2019/20, in addition to three recommendations raised in 2018/19 (falling due in 2019/20) have been confirmed by management as implemented. IA follow-up verification work to confirm **HIGH** and **MEDIUM** risk recommendations are embedded and operating as intended can be found at section 5 of this report.

### 3. Head of Internal Audit Opinion Statement 2019/20

#### 3.1 Background

- 3.1.1 The HIA opinion statement is provided to inform the Director and Chair of the Authority and to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2019/20 year.
- 3.1.2 The AGS provides public assurances about the effectiveness of the Authority's governance arrangements, including the system of internal control. The HIA opinion statement meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015, and is also aligned to the PSIAS, in particular performance standard 2450, where the chief audit executive is required to deliver an annual internal audit opinion.

#### 3.2 Scope of Responsibility

- 3.2.1 The Authority is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

### 3.3 The Purpose of the System of Internal Control

- 3.3.1 The Authority's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.
- 3.3.2 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's corporate objectives and associated business plan. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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

- 3.4.1 The HIA opinion is based primarily on the IA assurance work carried out by IA service during 2019/20, as well as a couple of other assurance providers which have been considered in forming the HIA opinion.
- 3.4.2 The IA Plan for 2019/20 was developed primarily to provide WLWA Officers Team and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Authority's corporate governance arrangements and risk management framework.

### 3.5 Basis of Assurance

- 3.5.1 All of the IA reviews carried out in 2019/20 have been conducted in accordance with the UK PSIAs. An external quality assurance (EQA) review of the IA service confirmed that Hillingdon's IA service fully conforms to the requirements of the UK PSIAs in 2017/18.
- 3.5.2 In line with the UK PSIAs, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team has evolved during the year with every single member of the IA team either fully qualified or actively studying for a relevant professional IA qualification. As a result, the 2019/20 IA resources fulfilled the UK PSIAs requirements in terms of the combination of professionally qualified and suitably experienced staff.

### 3.6 Qualifications to the Opinion

- 3.6.1 During 2019/20 the Authority's IA service:
- had **unrestricted access to all areas and systems** across the Authority;
  - received **appropriate and full co-operation from officers and members**;
  - had **sufficient resources to enable it to provide adequate coverage** of the Authority's control environment to provide the overall opinion (refer to para 3.11.4).

As a consequence, **there are no qualifications to the 2019/20 HIA opinion statement.**

### 3.7 Other Assurance Providers

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

### 3.8 Significant Internal Control Weaknesses

- 3.8.1 IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year.
- 3.8.2 In July 2018, it was identified that an employee at the WLWA's Twyford site had committed acts of fraud, with the estimated cost to the Authority being in the region of £15,000. Management at WLWA investigated the matter resulting in the dismissal of the perpetrator and referral to the Police for further investigation. Following the incident Internal Audit carried out a review on financial controls (in December 2018) at the Twyford site and raised **3 MEDIUM** risk recommendations. In May 2019, IA performed a follow-up exercise and independently verified that all **3 MEDIUM** risk recommendations had been implemented.
- 3.8.3 **There were no significant control weaknesses identified through IA work conducted during 2019/20.**

### 3.9 Risk Management

- 3.9.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Authority to achieve its corporate objectives, associated business plan and fulfil its strategic priorities.
- 3.9.2 The 2016/17 IA assurance review of RM provided **REASONABLE** assurance over the management of the key risks to the achievement of the objectives for the Authority's RM process. The Authority's Financial Regulations (FRs) document the responsibilities of Officers and Members, in particular the Audit Committee, in relation to Risk Management. This is underpinned by the Risk Management Framework and Policy.
- 3.9.3 We found sufficient controls were in place allowing the Authority to identify, classify and evaluate risks. We are pleased to report the risks are RAG (Red, Amber and Green) rated, which is seen as good practice as well as being aligned to the PESTEL framework.
- 3.9.4 We are pleased to report that the risk register is regularly updated, reported and reviewed at all levels within the Authority and considered at the Authority's Audit Committee (who met twice during 2019/20) informing Members of significant changes to prioritised risks (**RED** and **AMBER**). This allows the Audit Committee to fulfil its duty and review the risk register and the risk management strategy as per the Authority's FRs.

### 3.10 Corporate Governance

- 3.10.1 Corporate governance (CG) can be defined as the way in which the Authority is *directed* and *controlled*. It comprises a combination of systems, processes and structures as well as the culture of the Authority. Good governance is acknowledged to be essential for the success of any organisation and leads to good management, performance, stewardship of public money, and fundamentally good outcomes for stakeholders. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services, value for money and delivery of stakeholder expectations.
- 3.10.2 The 2016/17 IA assurance review provided **REASONABLE** assurance in this area, assessing the Authority against the 7 Principles for good governance framework, as published within the 2016 revised addition of CIPFA's *Delivering Good Governance Framework*. Testing verified the Authority's overall compliance against these 7 principles.

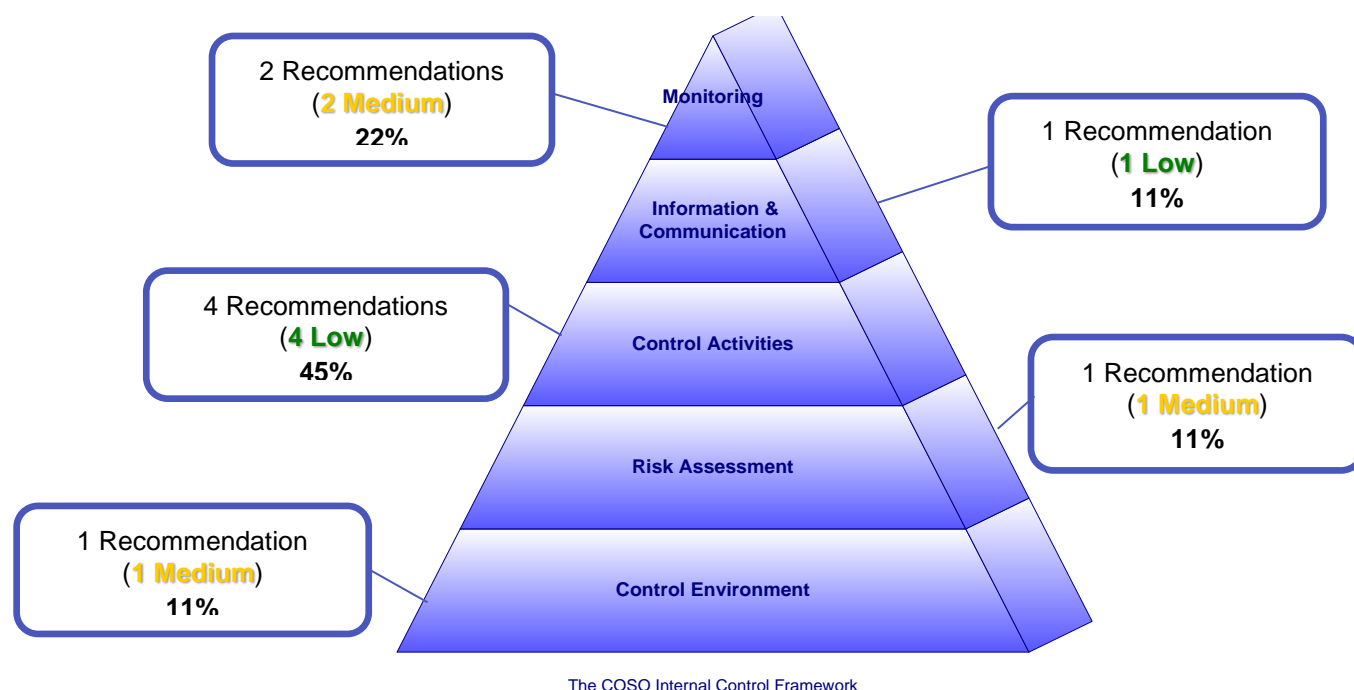


### Annual Governance Statement

- 3.10.3 The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Authority has a statutory obligation under the Accounts and Audit (England) Regulations 2015 to prepare an Annual Governance Statement (AGS), a significant component of the Authority's governance framework. The AGS provides the Authority with a mechanism to demonstrate its positive governance culture and also enables stakeholders to understand the governance arrangements the Authority has in place. The AGS supports the Annual Statement of Accounts and identifies any significant governance issues.
- 3.10.4 IA established that the draft AGS was produced as part of the draft Annual Statement of Accounts for 2019/20, and will be presented to the West London Waste Authority on the 26<sup>th</sup> June 2020. We are aware that assurance statements are completed by the Authority's Chief Officers and Senior Managers to demonstrate the ownership for the quality of governance arrangements around service areas for which they are responsible.
- 3.10.5 **There were NO significant governance weaknesses identified within the 2019/20 Draft AGS reported to the Authority on 26<sup>th</sup> June 2020.** The 2019/20 AGS is in the process of being finalised for the Annual Statement of Accounts for 2019/20 that will be presented to Authority on 26<sup>th</sup> June 2020 for approval.

### 3.11 Internal Control

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



- 3.11.2 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, recruitment processes and performance management. The other components of the framework have a relative proportionate share of recommendations.

- 3.11.3 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too.
- 3.11.4 From the IA work undertaken in 2019/20, and the other sources of assurance referred to at para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Authority for the year ended 31<sup>st</sup> March 2020 accords with proper practice.**

## 4. Analysis of Internal Audit Activity 2019/19

### 4.1 Internal Audit Assurance Work 2019/20

- 4.1.1 The 2019/20 IA assurance work may be summarised by the assurance level achieved (definitions of the IA assurance levels are included at **Appendix B**) as per the table below:

Assurance Level	Number of IA Assurance Reports	Assurance %
<b>SUBSTANTIAL</b>	2	67%
<b>REASONABLE</b>	1	33%
<b>LIMITED</b>	0	-
<b>TOTAL</b>	<b>3</b>	<b>100%</b>

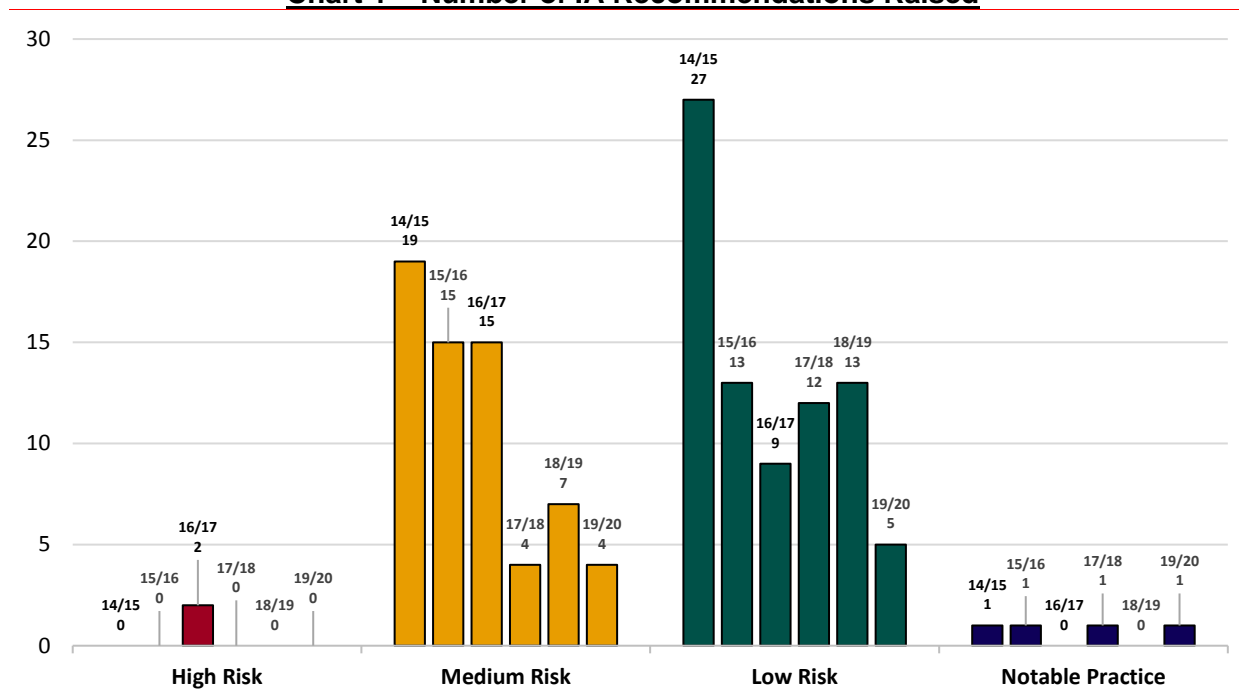
- 4.1.2 The table above highlights that two of the three areas subject to IA in 2019/20 were assessed by IA as providing a **SUBSTANTIAL** assurance opinion. This is against a backdrop of IA resources being focused on key risk areas to the Authority and therefore reflects positively on the overall control environment within the Authority, representing a robust control environment in operation. The remaining area subject to audit were provided with a **REASONABLE** assurance opinion. The individual assurance audits carried out during 2019/20 are fully listed at **Appendix A**.

- 4.1.3 For the **3** IA assurance reviews, there were **9** IA assurance recommendations raised in total in 2019/20:

Risk Rating	2019/20 IA Recs	% Split	Comparison				
			2018/19	2017/18	2016/17	2015/16	2014/15
<b>HIGH</b>	0	0%	0% (0)	0% (0)	8% (2)	0% (0)	0% (0)
<b>MEDIUM</b>	4	44%	7 (35%)	25% (4)	58% (15)	54% (15)	41% (19)
<b>LOW</b>	5	56%	13 (65%)	75% (12)	34% (9)	46% (13)	59% (27)
<b>TOTALS</b>	<b>9</b>	<b>100%</b>	<b>100% (20)</b>	<b>100% (16)</b>	<b>100% (26)</b>	<b>100% (28)</b>	<b>100% (46)</b>
<b>NOTABLE PRACTICE</b>	1	-	-	1	-	1	1

- 4.1.4 Given that an increasingly risk based IA approach has been applied, it is above our expectations that **nearly half of the IA recommendations raised** are **HIGH** or **MEDIUM** risk. The breakdown of all 2019/20 IA recommendations (plus notable practices) by risk rating, is provided in the bar chart overleaf providing a comparison with prior year data:



**Chart 1 – Number of IA Recommendations Raised**

4.1.5 The bar chart above depicts an overall reduction in the number of recommendations raised in 2019/20 when compared with the prior 3 years; the distribution of which also represents a positive downward trend in the risk rating of recommendations when compared to the prior year(s). This should be seen as encouraging given risk based approach applied to IA work.

## 5. Internal Audit Follow-Up

- 5.1 IA monitors all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation such as adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations. The full definitions of the IA recommendation risk ratings and risk responses are included at **Appendix B**.
- 5.2 Following the issue of an IA assurance report, **HIGH** and **MEDIUM** risk recommendations are recorded in TeamCentral, a module of our TeamMate e-audit software, for tracking and monitoring purposes. Recommendation risk owners and key stakeholders have access to and provide status updates (including supporting evidence) via this software.
- 5.3 The **3** IA assurance reviews have resulted in **9** IA recommendations being raised in 2019/20. Given that we are taking a risk based IA approach to IA coverage, it is a positive outcome that **only four MEDIUM risk recommendations were raised in 2019/20**. The table below summarises the **status of these recommendations as at 31<sup>st</sup> May 2020**. Our follow-up work also includes the three recommendations (**3 MEDIUM**) from 2018/19 financial year which have fallen due within 2019/20:

2019/20 IA Recommendation Status as at 31 <sup>st</sup> May 2020	HIGH	MEDIUM	Total
Total No. of recommendations raised in 2019/20 (per <b>Appendix A</b> )	-	4	<b>4</b>
No. of recommendations due for follow-up Implementation (includes prior year(s))	-	3	<b>3</b>
No. of recommendations deemed implemented	0	7	<b>7</b>

2019/20 IA Recommendation Status as at 31 <sup>st</sup> May 2020	HIGH	MEDIUM	Total
No. of recommendations deemed outstanding	0	0	0

- 5.4 Positive management action was proposed to address each of the three 2018/19 **MEDIUM** risk IA recommendations raised with no risks tolerated by management. As at the 31<sup>st</sup> May 2020, 7 recommendations (including 3 **MEDIUM** from 2018/19) had fallen due. Through testing we were able to verify that all 7 recommendations had been implemented.

## 6. Review of Internal Audit Performance

### 6.1 Key Performance Indicators

- 6.1.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Authority in helping measure how successful IA has been in achieving its strategic and operational objectives, ensuring that assurance is provided to Senior Management and the Audit Committee in a timely and effective manner.

- 6.1.2 Actual cumulative IA performance for 2019/20 against its KPIs is highlighted in the table below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	<b>HIGH</b> risk IA recommendations where positive management action is proposed	98%	N/A - no high risk recommendations raised in 2019/20	
KPI 2	<b>MEDIUM</b> risk IA recommendations where positive management action is proposed	95%	100%	GREEN
KPI 3	<b>HIGH</b> risk IA recommendations where management action is taken within agreed timescale	90%	N/A - no high risk recommendations raised in 2019/20	
KPI 4	<b>MEDIUM</b> risk IA recommendations where management action is taken within agreed timescale	75%	100%	GREEN
KPI 5	Percentage of IA Plan delivered to <b>draft report</b> stage by 31 <sup>st</sup> March	90%	100%	GREEN
KPI 6	Percentage of IA Plan delivered to <b>final report</b> stage by 31 <sup>st</sup> March	80%	100%	GREEN
KPI 7	Percentage of draft reports issued as within 10 working days following the exit meeting	90%	100%	GREEN
KPI 8	Percentage of draft reports issued as a final report within 5 working days after receiving management responses to the <b>HIGH</b> and <b>MEDIUM</b> risk IA recommendations proposed	90%	100%	GREEN
KPI 9	Client Satisfaction Rating	85%	95%	GREEN
KPI 10	IA work fully compliant with the <b>PSIAS</b> and <b>IIA Code of Ethics</b>	100%	100%	GREEN

## 6.2 Client Feedback Questionnaires

- 6.2.1 IA send out a client feedback questionnaire (CFQ) at the completion of all assurance reviews to capture and obtain formal management feedback. The **IA CFQ target** previously agreed with the Officers Team and the Audit Committee was for IA to achieve **an overall average score of 3.4 (85%) or above** across the eight CFQ areas. As a recap on the CFQ scores, 4 means the client strongly agrees; 3 is agree; 2 is disagree; and 1 is strongly disagree.
- 6.2.2 There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HIA to enable management to form an overall and definitive opinion on the work that IA does i.e. did the internal audit review add value or not? Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is unhappy i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.
- 6.2.3 The overall **average CFQ score for 2019/20 is 93.75%**; this is a 8% increase on 2018/19 performance, which shows a positive direction of travel. We have discussed the scoring with the audit sponsor to identify areas where improvements in the audit process could be made.
- 6.2.4 The table below shows a breakdown of the average score from the **3** CFQs completed as well as providing a year-by-year comparison:

IA CFQ Areas	Average Score						% Change (18/19-19/20)
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	
<b>Q1. Planning:</b> The planning arrangements for the IA review were good	3.60	3.75	3.25	3.25	3.67	3.67	-
<b>Q2. Scope:</b> The scope of the IA review was relevant	3.80	3.75	3.25	3.75	3.33	4.00	+20%
<b>Q3. Conduct:</b> The IA review was conducted in a highly professional manner	4.00	4.00	3.75	3.75	3.67	4.00	+9%
<b>Q4. Timing:</b> The IA review was carried out in a timely manner	3.60	4.00	3.25	3.25	4.00	3.67	-8%
<b>Q5. Report:</b> The IA report was presented in a clear, logical and organised way	3.60	4.00	4.00	4.00	3.67	4.00	+9%
<b>Q6. Recommendations:</b> The IA recommendations were constructive and practical	3.40	3.75	3.25	3.75	2.67	3.67	+37%
<b>Q7. Value:</b> The IA review added value to your service area	3.00	3.75	3.00	3.75	2.67	3.00	+12%
<b>Q8. Overall:</b> I look forward to working with IA in future	4.00	4.00	4.00	4.00	4.00	4.00	-
<b>Average Total Score</b>	<b>3.63</b> (90.75%)	<b>3.88</b> (96.88%)	<b>3.47</b> (86.72%)	<b>3.69</b> (92.19%)	<b>3.46</b> (86.5%)	<b>3.75</b> (93.75%)	<b>+8%</b>

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

## 7. Forward Look

- 7.1 The London Borough of Hillingdon's Internal Audit Team officially ends their contract with the West London Waste Authority in June 2020. Due to the Covid-19 pandemic in March 2020 the impact to 'business as usual' (including a tender exercise) was put on hold while the country went into lockdown. Covid-19 has singlehandedly changed the risk landscape for every organisation and although the Authority's recycling and rubbish collection facilities were closed to the public they remained operational as they were classed as being a critical service. As a result of the Coronavirus lockdown, West London residents increased the amount of dry recycling by 15% and food waste recycling by 6%.
- 7.2 Whilst restrictions are slowly easing and we return to a 'new normal', Internal Audit and the Authority have to consider how they work, what they work on and how can they work better and smarter whilst adhering to new social distancing rules as well as safeguarding staff, colleagues and customers.
- 7.3 Whomever is awarded the new Internal Audit contract for the Authority will need to navigate their way around these recent obstacles and challenges. Internal Audit should be proactive and prepared whilst remaining pragmatic, as the situation continues to evolve.
- 7.4 Internal Audit would like to take this opportunity to formally thank all those staff throughout the Authority with whom IA had contact with during the year and in previous years. There has been a collaborative approach in IA's relationship with the WLWA Officers Team who have responded positively, both informally and through the formal CFQ reporting.
- 7.5 There are no other matters that we need to bring to the attention of the WLWA Officers Team or the Audit Committee at this time.



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

8<sup>th</sup> June 2020

**APPENDIX A****DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2019/20**

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

**2019/20 IA Assurance Reviews:**

IA Ref.	IA Review Area	Status as at 31 <sup>st</sup> May 2020	Assurance Level	Risk Rating				CFQ Received (Score)
				H	M	L	NP	
WL1	Performance Management	Final report issued 6 <sup>th</sup> January 2020	<b>SUBSTANTIAL</b>	-	2	2	-	✓ (94%)
WL2	Business Continuity	Final report issued 6 <sup>th</sup> January 2020	<b>REASONABLE</b>	-	2	-	1	✓ (97%)
WL3	General Ledger	Final report issued 20 <sup>th</sup> March 2020	<b>SUBSTANTIAL</b>	-	-	3	-	✓ (91%)
Total number of IA Assurance Recommendations raised in 2019/20				<b>0</b>	<b>4</b>	<b>5</b>	<b>1</b>	
Total percentage of IA Assurance Recommendations raised in 2019/20				<b>0%</b>	<b>40%</b>	<b>50%</b>	<b>10%</b>	





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

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

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



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

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

**RISK RESPONSE DEFINITIONS**

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