

EAST LONDON WASTE AUTHORITY

19 JUNE 2006

FINANCE DIRECTOR'S REPORT

INTERNAL AUDIT PROGRESS REPORT 2005/2006, AUDIT PLAN 2006/2007 AND PLANNED AUDIT COVERAGE TO MARCH 2008	FOR DECISION
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1. Purpose

- 1.1 To advise Members of the progress of Internal Audit coverage and findings arising during 2005/2006.
- 1.2 To seek Members' comments and agreement to the proposed Internal Audit Plan for 2006/2007.
- 1.3 To advise Members of the planned Internal Audit coverage for 2007/2008.

2. Background

- 2.1 The objective and responsibility of the Internal Audit function is to provide Members and management with an independent view and assurance concerning the robustness of the systems and procedures within ELWA and in particular for the effective management of the contract with Shanks Waste Services, thereby safeguarding assets from fraud and wastage.
- 2.2 On 24th December 2002 ELWA entered into a 25 year contract with Shanks Waste Services for the provision of an Integrated Waste Management Service, which fundamentally changed the basis of the Internal Audit provision. Previously, Internal Audit coverage centred on reviewing the direct operations undertaken by the constituent Boroughs. These responsibilities have now been transferred to the Contractor (Shanks Waste Services). Consequently Internal Audit coverage now concentrates on systems and procedures within ELWA for the effective management of the contract with Shanks Waste Services.
- 2.3 At your meeting held on the 26th March 2003, Members agreed a 5 year Internal Audit plan. The purpose of the 5 year strategic plan is to ensure total audit coverage of the key systems / areas of activity within ELWA's unique operational environment. It is intended to fulfil this responsibility by working in conjunction with the District Auditor in keeping with the principles of "Managed Audit" advocated by the Audit Commission and aims to avoid any duplication of audit effort. Where the District Auditor can place reliance upon the work of internal audit, this can assist in minimising the number of days (and cost) of external audit work.
- 2.4 The Internal Audit function is provided by the London Borough of Redbridge and reports directly to the Finance Director (ELWA) who subsequently reports on Audit matters to the Authority.

3. Internal Audit Coverage During 2005/2006

- 3.1 The main focus of Internal Audit activity during this year has been to undertake a review of the Contract Monitoring Arrangements in place for the Integrated Waste Management Contract. Two other reviews due to be undertaken in respect of Closed Landfill Sites and Performance Measures were deferred to 2006/07 at the request of the Authority. However, some aspects of the audit of Performance Measures were covered in our review of the Contract Monitoring Arrangements.
- 3.2 The contract monitoring regime put in place by the Authority and the Boroughs is starting to bed in. ELWA officers provide the overall lead and central co-ordination on contract management issues with support from the constituent Boroughs. However a significant aspect of the overall monitoring regime is the self-monitoring carried out by Shanks Waste Services and the reliance placed on Shanks' Management Information System, which is also accessible to ELWA. Officers from ELWA and the constituent Boroughs check the reasonableness of this information and the effectiveness of the operation through regular independent visits. In addition to these monitoring visits, ELWA and Borough officers hold regular fortnightly meetings with Shanks' Operations Manager and Technical Officers. These meetings provide a forum to discuss contract related issues including performance, operational issues as well as health and safety. In addition to this, there are regular one to one meetings with the officers from Shanks Waste Services and the relevant matters are fed into the Project Team meetings.
- 3.3 The Integrated Waste Management Contract identifies the levels of monitoring required of Shanks Waste Services and how results should be reported. Specific financial penalties apply where the required level of self-monitoring is not undertaken. The majority of the management information required by the Authority for monitoring the Contract is available on Shanks' management information system. Detailed performance reports are also collated as part of the reporting of the Performance Indicators to the Management Board.
- 3.4 A key aspect of the overall monitoring regime is the involvement of the constituent Boroughs to supplement the visits of the ELWA Contract Manager. Service Level Agreements (SLA's) are in place that set out the Authorities monitoring requirements. Financial contributions are available from ELWA to help Boroughs meet these monitoring costs. However, we found that the frequency of site visits by the constituent Boroughs varied, ranging from regular visits to none. The Boroughs' failure to fully support the monitoring process has meant the SLA payments have been withheld as a result in a number of cases. We have recommended that the constituent Boroughs should be required to undertake sample checks of 15% of the waste flows reported on the weekly TIMS report and that monitoring be scheduled and appropriately documented. The constituent boroughs have now given an undertaking to comply with the requirements of the SLA. These new arrangements were due to start in September 2005. We also recommended that the new monitoring arrangements be reviewed after six months so that their effectiveness could be assessed.
- 3.5 The monitoring arrangements / requirements continue to be assessed, developed and co-ordinated to improve their overall effectiveness. As part of this process, management also need to consider the continued relevancy, effectiveness and adequacy of the range of indicators currently measured and in relation to the new waste processing facilities. Officers have indicated that work has been underway to develop a reporting database to co-ordinate the outcomes of the monitoring by the Boroughs. This is needed to gain an overview of the contract, and to ascertain the

general trends and patterns. While Shanks Waste Services has the responsibility of basic monitoring and reporting on performance, the effectiveness of this process depends on rigorous scrutiny and this falls to ELWA and the constituent Boroughs. Although regular monitoring of the core operation is performed by ELWA officers, poor monitoring by the Boroughs has meant that we were unable to provide assurance that all the services required by the contract are being delivered to the required standards.

4. Performance and Effectiveness of Internal Audit

4.1 The requirements of the Accounts & Audit Regulations (Amendment) 2006 provide the necessary assurance to Members and Management as to the adequacy of the Internal Audit function. It is important that the effectiveness of the work of Internal Audit is monitored and reported, to do this a range of Performance criteria is closely monitored by my Chief Auditor throughout the year. It is also essential that Internal Audit obtain the views of ELWA regarding the service it delivers and the value it adds to ELWA's business objectives. While feedback is currently obtained through discussions with the Executive Director, a more formal arrangement is to be introduced for 2006/2007. Another important measure of the effectiveness of Internal Audit is the reliance that can be placed on its work by the External Auditors. It is encouraging that the External Auditors continue to place reliance on Internal Audit work.

4.2 In my role as the Authority's Section 151 Officer I have undertaken a review of the Internal Audit process and its effectiveness. This has included regular briefings to me by the Chief Auditor / Audit Manager and the District Auditor. My view based upon my experience of the Internal Audit Section's advice and performance, external guidance on Internal Audit and the feedback I have received, is that the Authority has a sound and robust system of Internal Audit which continues to adapt and respond to the changing needs of the Authority.

5. Internal Audit Coverage for 2006/2007

5.1 The forth year of the 5 year strategic Internal Audit Plan will allow Internal Audit to pick up on some of the remaining areas, systems and procedures that the Authority is responsible for and that need to be in place for the effective management of its affairs. It will also carry out the two audits deferred from 2005/06. To this end we will be concentrating on reviewing the risk assessment process / contingency arrangements and the Closed Landfill Sites. Also scheduled for this year is a review of progress of the PFI.

6. Amendments to the Strategic Plan

6.1 At your meeting held on the 26th March 2003, Members agreed a proposed Internal Audit five year plan subject to the bringing forward of the anti-fraud work to the 2004/2005 plan. In essence the purpose of the 5year strategic plan is to ensure total audit coverage of the key systems / areas of activity within ELWA's unique operational environment.

6.2 To accommodate the deferral of two audits from 2005/2006, the planned work program for 2006/2007 and 2007/2008 has had to be amended accordingly. The proposed Internal Audit coverage for the next two years (2006/2007 onwards) is as follows;

Year	No. of Days	Areas for Audit Coverage
1 (2003/04)	20	Review of Internal Control Arrangements
2 (2004/05)	45	Total Information Management System (15) PFI Progress Review & Contract Compliance (15) Anti Fraud Work (15)
3 (2005/06)	22	Contract Monitoring
4 (2006/07)	30	Closed Landfill Sites Performance Measures Review Risk Assessment Process and Contingency Arrangements
5 (2007/08)	45	Best Value Work PFI Progress Review Contract Management including Monitoring Arrangements ELWA Procedural Review Contract Payment Review

6.3 There remains the requirement for the Audit Plan to be flexible in order to respond to changing priorities and the concerns of Members and Management, consequently further changes to the strategic five plan may be necessitated. As in all cases, actual audit coverage will be dependant on the outcome of our reviews.

7. Recommendation

7.1 Members are asked to:

- (a) note the audit coverage for 2005/2006 as outlined in Section 3;
- (b) agree the audit coverage for 2006/2007 as outlined in Section 5;
- (c) note the planned Internal Audit coverage for 2007/2008 in Section 6.

Geoff Pearce
FINANCE DIRECTOR

Background Papers

1. Internal Audit Report on Contract Monitoring