

EAST LONDON WASTE AUTHORITY

21 JUNE 2010

FINANCE DIRECTOR'S REPORT

INTERNAL AUDIT PROGRESS REPORT 2009/10, AUDIT PLAN 2010/11 AND PLANNED AUDIT COVERAGE TO MARCH 2015	FOR DECISION
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1. Purpose

- 1.1 To advise Members of the progress of Internal Audit coverage and findings arising during 2009/10.
- 1.2 To seek Members' comments and agreement to the proposed Internal Audit Plan for 2010/11 and the adoption of the five-year rolling programme attached at Appendix A.

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 East London Ltd (SEL), thereby safeguarding assets from fraud and wastage. Internal Audit coverage has and will continue to concentrate on reviewing systems and procedures within ELWA to ensure the effective management of the contract.
- 2.2 The Internal audit strategy / plan was agreed on 23rd June 2007. The purpose of the 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 External 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 External 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.
- 2.3 The Internal Audit function is provided by the London Borough of Redbridge (LBR) and reports directly to the Finance Director (ELWA) who is the Section 151 Officer and who subsequently reports on Audit matters to the Authority.
- 2.4 This report provides Members with:-
 - a brief summary of the audit coverage for 2009/2010;
 - a list of the Audit Areas due to be undertaken during 2010/2011;
 - Details of the proposed five-year rolling audit plan, which sets out the coverage at a strategic level for the following five years.

3. Internal Audit Coverage During 2009/10

- 3.1 The main focus of Internal Audit activity during this year has been to undertake the planned reviews of Asset Management, the collation of data for Recycling Performance Indicators (PIs) and the Management of the Contract with Shanks East London Ltd

(SEL). The high-level Governance review, which had been rescheduled for this year, was not undertaken as the Authority is currently reviewing its governance arrangements and therefore the audit resource was used to formulate a revised set of draft contract and financial rules for ELWA's consideration and adoption. All three audits; Asset Management, Recycling PIs and Contract Management have now been finalised.

- 3.2 Based upon the audit work undertaken during 2009/10, Internal Audit has reached the opinion that the Authority's overall control / governance framework is generally sound. Core financial systems continue to operate effectively although the arrangements for monitoring the contract with SEL had not made the improvements anticipated. There has been no reported fraud or irregularity during the year. As no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance, this statement is intended to provide reasonable assurance. The main findings of the audits undertaken during 2009/10 are noted below.

Audit of Asset Management

- 3.3 Overall, we are satisfied that the systems in place are generally sound. The independent readings taken of methane levels and of leachate did not highlight any problems, although steps will need to be taken to ensure that all boreholes are accessible.
- 3.4 It was evident that regular monitoring is being undertaken, although these arrangements should be formalised and the findings from the checks carried out by both ELWA officers and operatives at Aveley 1 should be documented.
- 3.5 The Authority is currently considering the feasibility of the disposal of some (or all) of its closed landfill sites and has engaged advisors to ascertain the best way of securing this. The disposal would hopefully generate income to the Authority and remove the need for supervision and reduce the potential liabilities, which go with the ownership and management of the sites.
- 3.6 Based upon our testing and the assurances received from management we can provide substantial assurance that the systems of internal controls are generally sound.

Audit of Recycling P.I.s

- 3.7 The review found that the systems in place to check and verify the WasteDataFlow information supplied to ELWA by SEL for the compilation and submission of both ELWA's and the constituent boroughs' recycling PIs were effective.
- 3.8 The data supplied by SEL from their TIMS system is used as part of the invoice agreement and is then reconfigured into a format that is more suitable for the boroughs and for the entry of performance data into DEFRA's WasteDataFlow portal. These routines are undertaken monthly and due to their complexity we feel that the procedure followed should be documented.
- 3.9 Allocations are made to the boroughs based upon tonnages that can be directly attributable and those that are based upon apportionments of the waste collected. We found this approach to be reasonable.
- 3.10 A review of the performance information provided to the ELWA Members and Board identified errors within the calculation in the September 2009 report meaning that the

results were inaccurately stated. Checks should be undertaken to ensure that such information is correct.

- 3.11 It is our opinion, based upon the areas examined during the audit, that substantial assurance can be given for the controls and processes in place for the calculation and production of Recycling PIs.

Audit of Contract Monitoring Arrangements

- 3.12 Last year's audit identified an improvement in the contract monitoring arrangements and this was due in part to the appointment of a Waste & Recycling Officer (WRO), which provided ELWA with an additional resource enabling a more pro-active role to be taken in the monitoring of the contract. The resignation of the WRO in April 2009, and subsequent delay in appointing a replacement, until April 2010, meant that these improvements were not built upon.
- 3.13 Whilst initial attempts were made to cover the post with existing officers, it soon became apparent that this was having an adverse effect on other areas of work and consequently many of the monitoring routines in place previously were not undertaken or were reduced and some of the improvements recommended at last year's audit were not implemented.
- 3.14 Inconsistencies were still evident between the constituent boroughs in the inspection records and supporting evidence that they provided, but the trial introduction of hand-held devices during 2010/11 should help to minimise these. If the devices fail to eradicate the inconsistencies then ELWA's requirements should be reinforced within the annual service level agreement with the Boroughs.
- 3.15 It was noted again that the boroughs are not all signing and returning their service level agreements meaning that there may not be a formal basis for the arrangements between ELWA and the constituent boroughs in respect of these services.
- 3.16 Our review of the monitoring of the contract performance standards identified that turnaround times continue to be the main area of non-compliance and penalty deductions. It was evident that other standards are also being monitored and penalties applied where appropriate but we recommended that there needs to be a proper audit trail that identifies performance issues from inspection visits through to the penalties deducted from the monthly invoiced amount.
- 3.17 Effective processes were in place for the agreement of the monthly invoice, and these processes are now covered by a written procedure. Regular meetings are held with SEL and the constituent boroughs to try to improve the delivery of ELWA's Integrated Waste Management Service (IWMS) through the contract.
- 3.18 It is our opinion that as a result of staff vacancies the improvements in monitoring seen last year have not been progressed. Some of the monitoring routines have not been carried out and audit recommendations not implemented, resulting in improvements still being necessary for some of the monitoring controls. This, together with the need for a robust audit trail between the findings from the inspection visits and the performance penalties applied, means that only limited assurance was given for this review.

4. Internal Audit Coverage for 2010/11

- 4.1 The past seven years have allowed Internal Audit the opportunity to consider the most appropriate way to meet the annual plan, react to changing circumstances while considering the strategic implications / risk management issues for the Authority. The annual audit plan is formulated from discussions with the Finance Director / Section 151 Officer, the Executive Director and the General Manager and is based on an annual risk assessment process so that identified concerns are assessed and evaluated to determine the impact on the Authority. The risk assessment process takes into consideration the risks identified in the Authority's risk register, but also considers other factors such as, previous audit findings, materiality, volume and value of transactions, complexity and stability of systems, contract compliance and level of irregularities. This ensures the plan is responsive to the needs of the Authority. Based on Internal Audit's previous work, foremost amongst those aspects, which need to be regularly reviewed, are the arrangements for the management and monitoring of the Integrated Waste Management Contract.
- 4.2 To enable Internal Audit to target its resources most effectively, coverage has been set at a more strategic level and forms part of a rolling five-year plan, a copy of which is attached at Appendix A.
- 4.3 The main areas of focus for 2010/11 will continue to be contract monitoring and management. A second review will consider the Authority's internal control and corporate governance arrangements, reviewing the effectiveness of the new arrangements in place.
- 4.4 It is also intended to continue to carry out follow up work to ensure that actions agreed by management have been implemented and to seek explanations where recommendations have not been implemented in the appropriate time scales. Internal Audit will periodically report to the Authority on the progress made by management on the implementation of high risk recommendations.

5. Internal Audit Coverage for 2010- 2015

- 5.1 As stated in paragraph 4.2 above, it is proposed that a rolling five year plan be adopted for future audit coverage with the areas for review set at a higher, strategic level. This plan is attached for Members approval. The revised plan will enable greater flexibility and mean that Internal Audit will be able to respond to changing priorities and the concerns of Members and Management. Like the previous plan this has been risked assessed and enables internal audit resources to be targeted accordingly.

6. Performance and Effectiveness of Internal Audit

- 6.1 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 the 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. 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's work.

6.2 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 External Auditor. My view based upon my experience of the Internal Audit Section's advice and performance, external guidance on Internal Audit and the feedback 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.

7. Conclusions

7.1 Based upon the audit work undertaken during 2010/11, Internal Audit has reached the opinion that the Authority's overall control framework is generally sound and the core financial systems continue to operate effectively and there are no fundamental breakdowns in control resulting in material discrepancy. This view is re-enforced by the Authority's External Auditors. Management will need to ensure that a full contract monitoring programme is in place once the new WRO is in post to ensure that controls are fully satisfactory.

7.2 I feel confident that through this process and the assurances received, notably from Internal Audit, External Audit and other sources, I will be well placed to provide an opinion as to the overall adequacy and effectiveness of the Authority's internal control environment to Members and Management.

8. Recommendation

8.1 Members are asked to:-

- i) note the audit coverage for 2009/10 as outlined in Section 3;
- ii) agree the audit coverage for 2010/11 as outlined in Section 4;
- iii) agree the Five Year Strategic Plan set out in Appendix A.

Geoff Pearce
FINANCE DIRECTOR

Appendices	
A	Five Year Strategic Plan
Background Papers	
None	