

AUTHORITY REPORT: INTERNAL AUDIT PROGRESS 2010/11, AUDIT PLAN 2011/12 & PLANNED AUDIT COVERAGE TO MARCH 2016

1. Confidential Report

No

2. Recommendations:

- 2.1 Note the audit coverage for 2010/11 as outlined in Section 3.
 - 2.2 Agree the audit coverage for 2011/12 as outlined in Section 4.
 - 2.3 Agree the Five Year Strategic Plan set out in Appendix A.
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3. Purpose

- 3.1 To advise Members of the progress of Internal Audit coverage and findings arising during 2010/11.
- 3.2 To seek Members' comments and agreement to the proposed Internal Audit Plan for 2011/12 and the five-year rolling programme attached at Appendix A.

4. Background

- 4.1 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.
- 4.2 The Internal Audit strategy / plan was agreed on 22 June 2010. 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.
- 4.3 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.
- 4.4 This report provides Members with:-

- a. a brief summary of the audit coverage for 2010/11;
- b. a list of the Audit Areas due to be undertaken during 2011/12;
- c. Details of the proposed five-year rolling audit plan, which sets out the coverage at a strategic level for the following five years (2011/12 to 2015/16).Text

5. Internal Audit Coverage During 2010/11

- 5.1 The main focus of Internal Audit activity during this year has been to undertake the planned review of Corporate Governance. Following discussion with the Managing Director, the planned audit of Contract Management was replaced with an audit of Financial Management involving detailed substantive checks of the Integrated Waste Management Strategy (IWMS) Contract invoices. Previously Contract Management has been audited annually and during 2010/11 we did follow up on previous recommendations made. Of the seven outstanding recommendations, six relate to the introduction of hand-held monitoring devices which are currently being tested and will be introduced during 2011/12. Overall we considered effective systems and controls are now in place, although these need to be embedded, and therefore it was considered that more value would be added by deferring this assignment and undertaking more in-depth reviews of the IWMS invoices. Both audits; Corporate Governance and Financial Management have now been finalised.
- 5.2 Based upon the audit work undertaken during 2010/11, Internal Audit has reached the opinion that the Authority's overall control / governance framework is generally sound. Core financial systems continue to operate effectively. 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 2010/11 are set out below.
- 5.3 In addition to the audit assignments above, we were asked to review and update ELWA's Constitution, including its Financial Regulations and Contract Standing Orders, in consultation with the Authority's Management. The revised Constitution was approved by the Authority on 27 September 2010.

Audit of Corporate Governance

- 5.4 Overall, we are satisfied that the systems in place are generally sound although we did find some gaps in those arrangements. ELWA reviewed its management structure in August 2010 making it better placed to deal with governance issues and it recognised the need for an effective performance management system; a finding that emerged as our major concern from this audit.
- 5.5 It was evident that the majority of the policies and procedures required for effective

governance are in place, including the IWMS, the annual budget & service delivery plan and the annual report, all which set out how the Authority intends to achieve its aims and objectives, and it also the required codes of conduct. However, as many of these policies and procedures are derived from those of the four constituent boroughs they do require some amendments to make them more suitable for ELWA's operations. There is both a whistleblowing policy and an anti-fraud & corruption policy published on the web site but these are somewhat buried within the constitution and it is considered that there should be direct links to both of these documents.

- 5.6 The Authority has a risk management framework in place that sets out ELWA's main risks as well as their mitigating controls. It was considered that the framework could be enhanced by evidencing any residual risks together with an action plan identifying how the risks are to be reduced further if appropriate. Our audit identified a significant risk that the authority had failed to recognise within its risk register; the lack of a business continuity plan (BCP). We were informed that officers would relocate to LBBD offices to carry on working but the BCP needs to go a lot deeper than that as many arrangements would need to be made and officers would need to know quickly what is expected of them. Without such a plan in place many of these could be missed and the Authority may find that it is unable to function effectively.
- 5.7 ELWA have arrangements in place for health & safety but these rely heavily on LBBD and this has led to gaps in these arrangements. The appointment of a health & safety officer and a first aid officer would go a long way to addressing these issues and help identify any omissions that exist and ensure that ELWA takes more responsibility for its health & safety arrangements and obligations.
- 5.8 Financial arrangements, including budgetary control, are generally effective although it is felt that more than one officer should have access to Agresso, as is currently the case. It was of concern that problems were being encountered in setting up a petty cash system but since the completion of our review a system has been put in place which the authority hoped will enable the petty cash float to be replenished through a local bank.
- 5.9 It was our opinion that because of the lack of both an effective performance management system and a business continuity plan that we can only provide limited assurance for this review.

Audit of Financial Management

- 5.10 Our in-depth review of a sample of individual sections of invoices for the Integrated Waste Management Service contract has identified that the invoices paid are generally accurate and that ELWA's own checking routines are sufficiently robust to

detect the vast majority of errors and omissions.

5.11 Whilst the original invoices submitted by SEL contain errors in half of those examined, the checking procedures in place at ELWA were sufficiently robust to detect and correct these. Performance penalties were correctly applied and claims by SEL to omit any excessive turnaround time penalties due to extenuating circumstances, were only allowed where they were supported by adequate documentary evidence.

5.12 The one area where we felt checking routines could be enhanced was the introduction of sample checking for abnormally high tonnages; a test we undertook that identified a number of collections that raised queries, primarily incorrect waste classifications at the weighbridge together with one over-statement. The potential consequences of incorrect classification or data error are overstating the tonnage collected, charging domestic waste as trade waste, increased cost to ELWA and understating recycling figures.

5.13 It was our opinion, based upon the areas examined during the audit, that controls in place for approving the IWMS invoices were effective and therefore substantial assurance is given for this review.

6. Internal Audit Coverage for 2011/12

6.1 The annual plan is structured to 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 and the Managing Director 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.

6.2 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.

6.3 The main area of focus for 2011/12 will be contract monitoring and management, particular attention will be paid to the introduction and use of the hand-held monitoring devices by both ELWA and the constituent boroughs. The financial management audits which involves the detailed checks of the IWMS invoices is now

planned as an annual review and this will be the subject of our second review.

6.4 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 annually report to the Authority on the progress made by management on the implementation of high risk recommendations.

7. Internal Audit Coverage for 2011– 2016

7.1 As stated in paragraph 6.2 above, it is proposed that the updated 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 updated 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.

8. Performance and Effectiveness of Internal Audit

8.1 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.

8.2 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.

9. Conclusions

9.1 Based upon the audit work undertaken during 2010/11 and, where appropriate, the relevant assurances provided by the constituent boroughs, 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.

9.2 Notwithstanding the above the following areas identified from recent audits should be considered for inclusion within the Annual Governance Statement;

- a. Contract Management – embedding best practice and monitoring performance outcomes with the introduction of the had-held devices.
- b. Performance Management – The implementation of a performance system.
- c. Business Continuity Planning – The formulation of a business continuity plan
- d. The introduction of which will strengthen existing governance arrangements.

9.3 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.

10. Relevant officer:

Geoff Pearce, Finance Director & Section 151 Officer /
e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588

11. Appendices attached:

Appendix A: 5 Year Strategic Plan

12. Background Papers:

21 June 2010: Report & Minute 2010/15

13. Legal Considerations:

None

14. Financial Considerations:

Covered by Service Level Agreement – no additional costs.

15. Performance Management Considerations:

None

16. Risk Management Considerations:

16.1 ELWA has an agreed risk management strategy and register that is reviewed on a regular basis. Internal Audit acts as one of the key tools to assess whether the controls that have been put in place to mitigate risks are working effectively.

16.2 The findings from Internal Audit's work should inform the Authority's risks

management process and, where appropriate, impact upon the scoring of specific risks facing the Authority.

17. Previous Reports:

None

18. Follow-up Reports:

Annual

19. Websites and e-mail links for further information:

None

20. Glossary:

ELWA = East London Waste Authority

SEL = Shanks.east london

BCP =Business Continuity Plan

21. Approved by Management Board:

13 June 2011

22. Confidentiality:

Not applicable