



**WEST MIDLANDS**  
COMBINED AUTHORITY

## **Audit, Risk & Assurance Committee**

<b>Date</b>	19 January 2018
<b>Report title</b>	Internal Audit Update
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<b>Report to be/has been considered by</b>	Not applicable

**Recommendation(s) for action or decision:**

**Audit, Risk and Assurance Committee is recommended to:**

1. Note the contents of the latest Internal Audit Update Report.

## **1.0 Purpose**

1.1 The purpose of this report is to present the Committee with an update on the work completed by internal audit so far, this financial year.

## **2.0 Background**

2.1 In accordance with the agreed work programme for internal audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing their risk management, governance and control environment.

2.2 The reports will also feed into the Annual Internal Audit Report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

## **3.0 Wider WMCA Implications**

3.1 There are no direct wider WMCA implications arising from this report.

## **4.0 Financial implications**

4.1 There are no direct financial implications arising from this report.

## **5.0 Legal implications**

5.1 There are no direct legal implications arising from this report.

## **6.0 Equalities implications**

6.1 There are no direct equalities implications arising from this report.

## **7.0 Other implications**

7.1 Not applicable

## **8.0 Schedule of background papers**

8.1 None

## **9.0 Appendices**

9.1 None



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## Internal Audit Update Report Quarter 3 2017-2018

## 1 Introduction

The purpose of this report is to bring the Audit, Risk and Assurance Committee up to date with the progress made against the delivery of the 2017- 2018 internal audit plan.

The Audit, Risk and Assurance Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

### Year on year comparison

Four pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over the previous year is set out below:

Opinion	2017/18 (@ Q3)	2016/17
Substantial	1	4
Satisfactory	4	4
Limited	-	2

2 *Summary of audit reviews completed*

The following audit reviews were completed by the end of the second quarter:

Auditable area	Assessment of Assurance Need	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Previously reported:							
Programme Management Office Project Appraisal and Support Functions	High	-	4	2	6	5*	Satisfactory
Transport for West Midlands Capital Programme	High	-	2	1	3	3	Satisfactory
Expenses, and Gifts and Hospitality	Medium	-	1	3	4	4	Satisfactory
Investment Programme - Governance Arrangements for Project Appraisal and Approval	High	-	8	0	8	8	Satisfactory
Reported this quarter for the first time:							
Treasury Management Key Financial System	High	-	-	2	2	2	Substantial

\* This issue related to the certification of approvals and at the time of our review the previous Head of the Programme Office indicated that there was a compensating control. We have subsequently revisited this area as part of our recent Investment Programme audit and recommendations to address this issue have been accepted and will be implemented as part of the external WMCA Portfolio Management and Assurance review being undertaken of all WMCA programme management, governance and appraisal processes.

### 3 *Any key issues arising from our work completed in Quarter 3*

We are pleased to report that no limited reports were issued during quarter three.

#### **Investment Programme - Governance Arrangements for Project Appraisal and Approval**

An audit of the governance arrangements for project appraisal and approval within the Investment Programme was undertaken as part of the approved internal audit plan for 2017/18. The Assurance Framework outlines the Project Lifecycle Process which stipulates the assessment and evaluation processes and associated roles and responsibilities at each stage of the Project Lifecycle.

The aim of the Project Lifecycle Process is to undertake assessment and evaluation that results in recommendations and approvals that ensure Investment Programme funding is allocated to projects that best fit the strategic objectives as stated in the Strategic Economic Plan. The Investment Programme is a 30-year programme, recently completing year one which involved a review of projects that are in the early stages of development.

The Project Lifecycle has been translated into the Integrated Assurance and Approvals Process Flow (Process Flow) which reflects the governance and decision-making arrangements supporting the Project Lifecycle. This Process details the specific panels and boards responsible for making recommendations, endorsements and approvals at Strategic Outline Business Case stage, Outline Business Case stage and Full Business Case stage.

It should be noted that whilst the various boards involved in this process have wider remits across the Combined Authority or relate to external bodies, the governance arrangements referred to in our review solely relate to, and have been reviewed in the context of the Project Lifecycle Process in operation for the Investment Programme.

We understand that the Project Lifecycle Process stipulated within the overall Assurance Framework was developed at the time of the constitution of the Combined Authority and applied in the context of an emerging organisation. The Programme Management Office and Corporate Assurance have advised that proportionate processes were established from September 2016 onwards with the view to ensure that project delivery time frames were not impeded and in turn prevented delay to the implementation of the devolution plan. We also understand that the processes established were based on projects that had already reached a level of maturity within programmes that had already been approved for funding within the Devolution Deal.

Consequently, we reviewed the appraisal and approval processes that current projects have progressed through, recognising that projects may not have progressed through the exact processes and channels that were introduced and expected to be used at the formation of the Combined Authority.

Also, that after a year of operation it is understandable that any new and emerging organisation such as the Combined Authority would naturally necessitate reiterated stages of review and change for some time to come and to ensure processes are fit for purpose as it matures and evolves. However, as newer projects falling within the approved programmes are now emerging for appraisal and approval, this is now an opportune time to revisit the current appraisal and approval processes, and ensure they are appropriate and

proportionate to the review of emerging projects and development / delivery of the Investment Programme.

We did note that the governance arrangements stipulated in the Assurance Framework for the Project Lifecycle Process regarding the Investment Programme had been clearly established and were found to be operating as evidenced within the minutes maintained for the various boards involved from the Investment Advisory Group through to the WMCA Board.

Therefore, the issues identified in our review, while complex need to be taken into context against the above. We did identify eight amber issues where improvements could be made, arising from the below, but again should repeat that we acknowledge that these processes are in many ways, still developing:

- Clear demonstration and documentary evidence of the appraisal process undertaken for each project was yet to be in place as part of providing overall assurance for the progression and delivery of the Investment Programme.
- Roles and responsibilities for the Technical Appraisal Panel needed to be clearly defined and a responsible officer (accountable for appraisal and its sign-off) assigned.
- Formalised mechanisms for initiation of projects into the Investment Programme and a selection and prioritisation process (proportionate to the overall approval of programmes within the Devolution Deal) for submitted individual projects had yet to be established.
- Suitable mechanisms for undertaking individual project appraisal, scoring and evaluation, due diligence activities and use of Dynamic Economic Impact Model data had not yet been fully established or utilised.
- Mechanisms for tracking and progressing projects and associated recommendations for approval from lower levels of governance through to higher levels of governance with clarity and consistency required development.
- Local assurance was not always documented or confirmed by the Technical Appraisal Panel as having been obtained by the project sponsor per their own organisation's governance arrangements, prior to submission of a project to the Investment Programme and endorsement to progress.
- Although the Strategic Economic Plan Board had been incorporated into the governance arrangements, it's role was yet to be clearly defined regarding its remit to review strategic alignment and reporting of outcomes to the Combined Authority, as well as involvement at different stages rather than only at Strategic Business Case stage.

- Whilst recognising projects had not yet reached delivery stage and the requirement to submit monitoring data had been mandated within funding agreements, monitoring and evaluation plans required to be submitted by the project sponsor at Full Business Case stage were not currently reviewed as part of the appraisal process to ensure fit for purpose going forward.

The newly appointed Director of Finance who started his appointment in October 2017, has welcomed this independent review of the current governance and approval processes for the Investment Programme. The Director of Finance along with the Investment Board want to be confident with the processes and sub-boards feeding into the Investment Board and recognise that there needs to be clear demonstration that robust processes for control and project appraisal exist to provide assurance to the Investment Board prior to the decision-making process.

The Director of Finance would like to acknowledge the work undertaken by the previous Interim Director of Finance, Corporate Services Director, Investment Programme Director and Head of Programme Management Office and Projects who have now left the WMCA to seize new opportunities. The Director of Finance further acknowledges that these officers were instrumental in embedding the Investment Programme governance and appraisal processes as outlined in the WMCA Assurance Framework in a period of great change during the transition and formation of the WMCA.

As Section 151 officer as well as accountable lead for the delivery of the Investment Programme, the Director of Finance following this internal audit and several personnel changes involved in the Investment Programme has commissioned an external independent programme management consultant to undertake a wider WMCA Portfolio Management and Assurance review of all WMCA programme management, governance and appraisal processes including those relating to the Investment Programme.

The Director of Finance has advised that the Portfolio Management and Assurance review will be concluded in July 2018 and that a full action plan to address issues highlighted by the external review and the issues identified within this internal audit review will be developed for implementation by December 2018.

The Director of Finance has also confirmed that immediate action is currently being undertaken to address urgent operational level issues relating to areas such as programme / project appraisal undertaken by the Technical Appraisal Panel, evidencing of their appraisal and decision making as well as tracking of business cases / recommendations through the current governance arrangements. The Performance Management Group will oversee the implementation of these recommendations.

In addition to the above actions, the Director of Finance has advised that the WMCA Board has approved that all existing programmes within the Investment Programme that have not reached contract award stage will be re-ranked and sequenced according to strategic alignment, due to funding constraints. We understand that the exercise will be concluded in July 2018 and will be undertaken in liaison with all Constituent Authority Leaders.

We further understand that the WMCA is currently in discussion with the Department of Communities and Local Government regarding review of the overall WMCA Assurance Framework as part of the forthcoming Annual Conversation.

Consequently, whilst we understand that immediate action will be taken to address operational issues identified within this report, and action will be taken as result of the outcome of the Portfolio Management and Assurance review by December 2018, we recognise that the potential outcomes of the re-ranking exercise and the review of the overall Assurance Framework may have implications for the Investment Programme and associated processes once outcomes are known.

The Director of Finance has advised that a review update covering the above areas will be provided to the Audit, Risk and Assurance Committee in July 2018. An internal audit follow-up review will be undertaken in due course.

### **Follow up of previous recommendations**

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee.

### **Cyber Security**

We are currently undertaking a follow-up review of the Cyber Security audit report issued in May 2016. A limited overall assurance opinion had been given at the time with one red and six amber issues identified. We understand that the Head of ICT and Head of Governance will be presenting a progress report to the committee meeting regarding improvements and progress made in Cyber Security. The outcome of our follow-up review will be reported to the next Audit, Risk and Assurance Committee meeting.

## **4** *The Internal Audit Plan*

The audit plan is re-profiled throughout the year as and when the risk profile of the Combined Authority changes, and to react to emerging issues, management and Audit, Risk and Assurance Committee requests.

Following on from its initial approval, two reviews have been deferred until 2018/19 to enable processes to bed in before review, as they are currently still in their development stage, these are:

- Commission Governance
- Investment Programme – Contract Compliance

However, an additional review on providing assurance that the Authority has robust systems and procedures in place to manage compliance with IR35 and has identified any contractors who fall within scope, will be undertaken and reported back to the Audit and Risk Assurance Committee.

The scheduled review on the establishment of the Mayoral Office will focus upon budget setting and subsequent monitoring in accordance with the constitution.

We continue to work with the Combined Authority on an on-going basis as part of our Transition Planning and Delivery review.

The remaining reviews from the Internal Audit Plan are either underway, or scheduled to be completed by the year end:

- IR35
- Key Financial Systems (draft report stage)
- Data Security
- Election Costs
- Mayoral Office
- National Fraud Initiative
- Recommendation Tracking

5 *2018/19 Internal Audit Plan – planning process*

We are currently in the process of developing the draft Internal Audit Plan for 2018/19 in liaison with senior management. The internal audit plan will be based, wherever possible, on management's risk priorities, as set out in the Authority's own risk analysis/assessment, developed by the Corporate Assurance Team. The plan will be designed to, wherever possible, cover the key risks identified by such risk analysis.

The auditable areas covered within the 2017/18 plan were as follows:

- Programme Management Office Project Appraisal and Support Functions
- Transport for West Midlands Capital Programme
- Expenses, and Gifts and Hospitality
- Investment Programme - Governance Arrangements for Project Appraisal and Approval
- Data Security
- Key Financial Systems
- Treasury Management
- IR35
- National Fraud Initiative
- Election Funding
- Mayoral Office
- Grant Certifications