

Agenda Item No.



Audit, Risk & Assurance Committee

Date	19 July 2023
Report title	Internal Audit Annual Report 2022-2023
Accountable Chief Executive	Laura Shoaf, Chief Executive
Accountable Employee	Helen Edwards, Director of Law and Governance
Report to be/has been considered by	N/A

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

1. Note the contents of the Internal Audit Annual Report 2022-2023.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Audit, Risk and Assurance Committee with an annual internal audit opinion on the adequacy and effectiveness of the Combined Authority's governance, risk management and internal control processes.

2.0 Background

- 2.1 The Annual Internal Audit Report summarises the work completed by Internal Audit during 2022-2023. It also provides a provisional annual audit opinion that based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no direct financial implications as a result of this report.

5.0 Legal implications

- 5.1 This report will provide the Audit, Risk and assurance Committee with assurance that it is fulfilling its functions as set out in Schedule 5A to the Local Democracy, Economic Development and Construction Act 2009.

6.0 Equalities implications

- 6.1 There are no implications.

7.0 Other implications

- 7.1 Not applicable.

8.0 Schedule of background papers

- 8.1 None.

9.0 Appendices

Internal Audit Reports:

Appendix A – Procurement Exemptions

Appendix B – IR35 Compliance



West Midlands Combined Authority

Internal Audit Annual Report 2022-2023

Introduction

Our internal audit work for the period from 1 April 2022 to 31 March 2023 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Combined Authority's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the opinion of the Chief Audit Executive and the Annual Governance Statement the Combined Authority is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Combined Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Combined Authority may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The outcome of assurance activity as part of the Single Assurance Framework
- The result of any quality accreditation
- The outcome of any visits by His Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third-party work designed to alert the Combined Authority to areas of improvement

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Overall Assurance

As the providers of internal audit to the Combined Authority, we are required to provide the Chief Executive and the Audit, Risk and Assurance Committee with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the Combined Authority's governance, risk management and control processes. We have considered:

- All audits undertaken for the year ended 31 March 2023.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Combined Authority.

Internal Audit Opinion

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

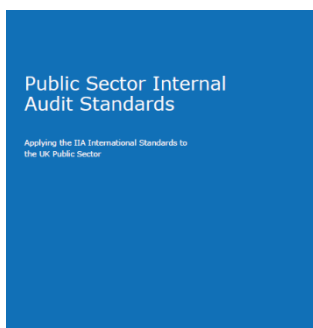
Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, we can provisionally* provide **reasonable assurance** that the Combined Authority has adequate and effective governance, risk management and internal control processes.

*At the time this report was produced there were two further audit reviews at draft report stage, and the indications were that there were no particular issues of concern arising. A further three audit reviews were currently underway, and the outcome of these, if particular concerns were to be raised, could potentially impact upon the overall level of assurance given.

In reaching our opinion, the following factors were taken into particular consideration:

- We gave limited assurance in two areas during the year (Procurement Exemptions and IR35 Compliance). It is important that the recommendations agreed as a result of these reviews are implemented in a timely manner.
- The need for management to plan appropriate and timely action to implement our, and other assurance providers' other recommendations.
- Key areas of significance identified as a result of our audit work performed in year are included in a table at the end of this report.

Compliance with the Public Sector Internal Audit Standards



Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

*14 pieces of audit work were completed in 2022-2023 at the time this report was produced, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2020-2021	2021-2022	2022-2023
Substantial	9	9	4
Satisfactory	4	6	8
Limited	-	1	2
No Assurance	-	-	-

* At the time this report was produced a further two reviews were at draft stage, and the indicators were that these would also be determined as satisfactory assurance.

A summary for each completed audit review is detailed below.

Summary of audit reviews completed

The following internal audit reviews were completed during 2022-2023 and, where appropriate, have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Reported previously							
ICT Strategy	High	-	1	3	4	4	Satisfactory
Dudley Interchange	Medium	-	3	-	3	3	Satisfactory
Affordable Housing Delivery Vehicle	High	-	1	-	1	1	Satisfactory
WM2041 Delivery Programme	High	-	3	1	4	4	Satisfactory
Organisational Change	High	-	1	-	1	1	Satisfactory
Payroll	High	-	2	5	7	7	Satisfactory
Key Financial Systems:	High						
• Accounts Payable	-	-	5	-	5	5	Satisfactory
• Accounts Receivable	-	-	-	-	-	-	Substantial
• Treasury Management	-	-	-	-	-	-	Substantial
• Budgetary Control	-	-	-	1	1	1	Substantial
• General Ledger	-	-	-	2	2	2	Substantial
Information Assurance and Cyber Security	High	-	5	13	18	18	Satisfactory

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Reported for the first time							
Procurement Exemptions	High	1	2	2	5	5	Limited
IR35 Compliance	High	1	4	-	5	5	Limited
Adult Education Budget (Draft)	High	-	6	5	11	tbc	Satisfactory
External Funding Arrangements (Draft)	High	-	tbc	tbc	tbc	tbc	Satisfactory
Bromsgrove Rail Station (underway)	High						
Land and Tenant Management (underway)	Medium						
Single Commissioning Framework (underway)	High						

The following reviews were also initially included in the Internal Audit Plan for 2022/23. However, following a mid-year review they were to be carried forward into 2023/24:

- Corporate Asset Acquisition and Disposal Framework
- Business Continuity
- Investment Programme – Monitoring and Evaluation
- Adult Education Budget - Procurement

The following reviews were deemed as no longer required:

- Inclusive Growth Toolkit – the toolkit was still in development and the work programme had been put on hold.
- Environmental Management System – this was initially to be audited bi-annually to satisfy ISO requirements, but it was understood that WMCA were not to continue the accreditation

Progress Monitoring of previously agreed recommendations as undertaken by the Internal Audit Liaison Officer

Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Progressed
				Red	Amber	Green	
Human Resources Pre-employment checks	N/A	27/11/20	31/12/20	-	2	-	2
Environmental Management System	Satisfactory	06/01/21	30/06/21	-	1	1	2
Digital Retraining Fund	Satisfactory	10/06/21	01/11/21	-	3	1	4
Risk Management	Satisfactory	10/06/21	21/07/22	-	1	3	4
WMCA Devolved Adult Education Budget	Satisfactory	07/09/21	30/09/22	-	3	2	5
Longbridge Park and Ride Income Management and Charging Arrangements	Limited	30/03/22	30/11/22	1	2	-	3
ICT Strategy	Satisfactory	29/03/22	31/08/22	-	1	3	4
Dudley Interchange	Satisfactory	13/05/22	31/07/22	-	3	-	3
Affordable Housing Delivery Vehicle	Satisfactory	20/06/22	30/04/23	-	1	-	0
MML	N/A	22/06/22	31/12/22	-	1	-	0
WM2041	Satisfactory	19/10/22	31/01/23	-	3	1	2
Information Assurance and Cyber Security	Satisfactory	05/01/23	30/06/23	-	5	13	16
Key Financial Systems	Substantial/ Satisfactory	03/02/23	31/05/23	-	5	3	7
Payroll	Satisfactory	09/03/23	06/04/23	-	2	5	7