



**WEST MIDLANDS**  
COMBINED AUTHORITY

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

<b>Date</b>	16 March 2018
<b>Report title</b>	Internal Audit Annual Report 2017/18
<b>Accountable Chief Executive</b>	Deborah Cadman, Chief Executive of the WMCA email: <a href="mailto:deborah.cadman@wmca.org.uk">deborah.cadman@wmca.org.uk</a> tel: 0121 214 7552
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<b>Report to be/has been considered by</b>	Leadership Team

**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 2017/18.

## **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 2017/18. It also provides an 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 implications.

## **5.0 Legal implications**

- 5.1 There are no implications.

## **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**

None



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## Internal Audit Annual Report – 2017/18

Delivered by City of Wolverhampton Council - Audit Services

## *Introduction*

Our internal audit work for the period from 1 April 2017 to 31 March 2018 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 work of the Combined Authority's Corporate Assurance Team
- The result of any quality accreditation
- The outcome of any visits by Her 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 taken into account:

- All audits undertaken for the year ended 31 March 2018.
- 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, Internal Audit can provide **reasonable assurance** that the Combined Authority has adequate and effective governance, risk management and internal control processes.

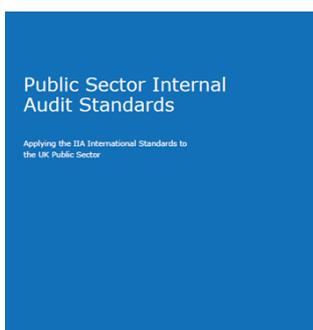
While not fundamental to the overall opinion, we gave a 'limited' assurance rating in the following areas:

Establishment of the Mayoral Office
Data Security (including GDPR readiness)

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

- There was a significantly changing environment in 2017/18 with the election of the first Mayor, the appointment of a new leadership team, the first development of a focussed Strategic Risk Register and the Audit, Risk and Assurance Committee's request for a review of the Governance framework and responsibilities which is due for completion in 2018/19.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified because 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.

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.

15 pieces of audit work have been completed where an audit opinion has been provided. A summary of the audit opinions given is set out below:

Opinion	2017/18
Substantial	6
Satisfactory	7
Limited	2

A summary for each completed audit review is detailed below.

Appendix 1.

*Summary of audit reviews completed*

The following internal audit reviews were completed during 2017/18 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	Recommendations					Level of assurance
	Red	Amber	Green	Total	Number accepted	
Programme Management Office Project Appraisal and Support Functions*	-	4	2	6	5*	Satisfactory
Transport for West Midlands Capital Programme	-	2	1	3	3	Satisfactory
Expenses, and Gifts and Hospitality	-	1	3	4	4	Satisfactory
Investment Programme – Governance Arrangements for Project Appraisal and Approval	-	8	0	8	8	Satisfactory
Treasury Management Key Financial System	-	-	2	2	2	Substantial
Accounts Receivable Key Financial System	-	-	1	1	1	Substantial
General Ledger Key Financial System	-	-	1	1	1	Substantial
Payroll Key Financial System	-	-	3	3	3	Substantial
Budgetary Control Key Financial System	-	2	1	3	3	Satisfactory
Accounts Payable Key Financial System	-	-	2	2	2	Substantial
IR35	-	4	3	7	7	Satisfactory
Election Costs	-	-	-	0	0	Substantial
National Fraud Initiative	-	2	4	6	6	Satisfactory
Establishment of the Mayoral Office	1	6	-	7	7	Limited
Data Security Arrangements (including GDPR readiness)	1	3	-	4	4	Limited

\* 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.

### *Summary of individual audits*

The following two reviews were categorised as Limited Assurance.

#### **Establishment of the Mayoral Office**

The objective of our review was to provide an audit opinion on compliance with the WMCA's Constitution as part of the establishment of the Mayoral Office and current operational processes relating to the Mayoral Office budget. We recognise that the Mayoral Office is a new service area and that its establishment was undertaken in extremely short timescales post-election. Consequently, initial arrangements to engage employees that were already involved in the Mayor's election campaign may understandably not have followed the standard selection process.

While several issues have been identified where improvements and compliance was required, these should be viewed proportionately in the context of the Mayoral Office budget in relation to the overall WMCA budget. Where recommendations relate to corporate processes, these have been agreed with the relevant service area within Corporate Services. All other recommendations have been agreed with the Mayor's Chief of Staff. In support of these recommendations, a lessons learnt exercise should be undertaken by Corporate Services in liaison with the Mayoral Office to help ensure that an appropriate protocol is developed to address future Mayoral changes. A copy of the report has been attached to this report.

#### **Data Security Arrangements (including GDPR readiness)**

We identified several issues relating to the formalisation of the WMCA's approach to readiness activities and proposed implementation of an Information Assurance Framework, based on the UK Information Commissioner's Office (ICO) 12 Step GDPR programme, following a review the outcomes of the external GDPR Gap Analysis Review commissioned by the WMCA in December 2017. A copy of the report has been attached to this report.

The following reviews were categorised as either Satisfactory or Substantial Assurance.

#### **Programme Management Office Project Appraisal and Support Functions**

The Programme Management Office undertakes project appraisal and support functions for both Transport for West Midlands projects and the Investment Programme, although each is subject to different funding and approval arrangements and therefore associated assurance and appraisal processes.

We identified issues where improvements could be made regarding the development of individual gated assurance reviews for Investment Programme projects, ensuring local assurance and endorsement processes had been clearly established for Investment Programme projects led by Transport for West Midlands, certification by project sponsors and evidencing of approvals within Department of Communities and Local Government specified templates, and development of change control procedures for the Investment Programme.

### **Transport for West Midlands Capital Programme**

The objective of our review was to provide an opinion on the adequacy and effectiveness of the appraisal and prioritisation of projects within the Transport for West Midlands Capital Programme (non-asset management). We had found that the prioritisation and ranking mechanism that had been developed clearly demonstrated a robust basis for supporting allocation of resources amongst competing concepts within constrained resources based on best practice and Department for Transport guidance, and can be adapted to reflect emerging priorities and strategic direction.

However, whilst recognising that development of the 2017/18 Capital Programme involved a one-off call out for Problem / Opportunity Statements for ranking, we identified areas for improvement regarding establishment of a pipeline development and management approach to the statements submitted for ranking as well as alignment to the Transport for West Midlands Gated Project Lifecycle Process, within which the prioritisation process could be used in future. We also noted scope for improving the endorsement and review of the statements prior to their submission to the ranking process as part of the one-off exercise in 2016/17 in support of development of the 2017/18 Capital Programme, noting that the relevant Boards may only have been recently established prior to the call-out exercise.

### **Expenses, and Gifts and Hospitality**

An audit of the arrangements in place for the payment of expenses, (including travel) and the acceptance of gifts and hospitality in relation to employees, the Mayor, Members and Councillors was undertaken as part of the approved Internal Audit Plan for 2017/2018. The objective of the review was to seek assurance that expenses were claimed and paid, and gifts and hospitality were dealt with in accordance with the WMCA's Constitution and Travel and Expenses policy.

We identified one area where improvements could be made regarding full completion of gifts and hospitality declaration forms in all instances and evidencing explicitly the reasons for the offer and whether accepted or declined.

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

The objective of our review was to seek assurance that the governance and decision-making arrangements established and operated were in accordance with the Project Lifecycle Process and associated terms of reference for the Investment Programme. 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, to ensure the 30-year Investment Programme funding is allocated to projects that best fit the strategic objectives as stated in the Strategic Economic Plan.

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, and 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 had 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.

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, regarding appraisal, scoring and evaluation processes including due diligence activities, roles and responsibilities, initiation of projects into the Investment Programme, monitoring and tracking project progress through the Lifecycle, confirmation of project local assurance, and review of individual project monitoring and evaluation plans.

As the 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 had 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 had 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.

They also confirmed that immediate action was 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 would oversee the implementation of these recommendations.

In addition to the above actions, they had advised that the WMCA Board had approved that all existing programmes within the Investment Programme that had not reached contract award stage would be reviewed to confirm that the income assumptions align with commitments to funding projects 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 Ministry for Housing, 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 scheduling 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 had advised that a review update covering the above areas would be provided to the Audit, Risk and Assurance Committee in July 2018. An internal audit follow-up review will be undertaken in due course.

## **Key Financial Systems**

The objective of the Treasury Management Key Financial System audit was to seek assurance that appropriate arrangements were in place for the effective management and control of the Combined Authority's treasury management activities, and were undertaken in compliance with the Constitution / Financial Regulations and the Code of Practice. The scope of the audit included strategy, policies and procedures in place for governing treasury management activities, systems and processes for treasury management transactions i.e. investments, borrowing and lending, and monitoring and reporting arrangements. Reference was made to compliance with the Combined Authority's Financial Regulations and the CIPFA Code of Practice on Treasury Management (2011). We identified no issues of concern.

We also reviewed the following key financial systems, with a particular focus on compliance with the Financial Regulations and Contract Procedure Rules. No significant issues of concern were raised:

- Accounts Receivable
- General ledger
- Payroll
- Budgetary Control
- Accounts Payable

## **IR35**

On 6 April 2017 the government enforced IR35 on all public-sector contracts. 'IR35' is the name given to the tax legislation aimed at identifying individuals who have arrangements set up to avoid tax and national insurance. At the time of our review, 74 cases were identified by WMCA as potentially falling under IR35 and were therefore subject to a formal assessment to determine whether they should be taxed the same way than that as a general employee. Out of the 74 cases, 31 cases were determined to be within the scope of IR35 and were actioned in accordance with the legislation.

We reviewed the policies and strategies in place for managing IR35, the systems and processes in place for identifying all contractors used by WMCA, assessing whether identified contractors were liable under IR35 and for notifying the contractor and their intermediary of their assessment outcome, and the measures that WMCA had put in place to manage the risk of losing key contractors and potential cost increases.

We identified issues where improvements could be made regarding the timeliness of sending and receiving Off-Payroll Workers Questionnaires and performing a HMRC assessment and documentation to evidence the Payroll and Pensions Manager's role as the assigned WMCA nominated point of contact for IR35. In addition, recommendations were made regarding the development of procedures to identify potential IR35 cases and ensure they include a review of WMCA's finance systems to capture all contractors/interims who should be subject to an IR35 assessment, and completion of the HMRC's Employment Status tool in all cases where workers were supplied by agencies.

## **Election costs**

The objective of our review was to seek assurance that the elections costs incurred by WMCA were in accordance with the Electoral Commission's planning guidance for Combined Authority Returning Officers (raising awareness and reimbursement of costs to local authorities) and to ensure that proper procedures were in place to reimburse Local Authorities for the costs they incurred whilst administering the election on behalf of WMCA. We identified no major issues

## **National Fraud Initiative**

An audit of the arrangements in place for the National Fraud Initiative (NFI) data matching exercise was undertaken as part of the approved internal audit plan for 2017/2018. WMCA participates in the Cabinet Offices National Fraud Initiative exercise which requires the CA to submit a range of data sets which are matched to data provided by other organisations to detect potential fraud. The matches are accessed through a secure website where the outcomes are also recorded. The resulting matches may indicate fraud, error of inconsistency which require investigation. The objective of the audit was to seek assurance that the National Fraud Initiative exercise is conducted in accordance with the Code of Data Matching Practice.

We identified issues where improvements could be made regarding inclusion of reference to the NFI Fair Processing Notice in Concessionary Travel Pass application forms and ensuring WMCA users with access to the NFI website have had criminal record checks completed in accordance with the NFI Security Policy.

#### *Follow up of previous recommendations*

We also 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 2016/17**

The original report made several recommendations to improve the overall control and effectiveness of the Cyber Security arrangements. We have reviewed the progress made to date with implementation of the recommendations in liaison with the Head of ICT, Head of Governance and the Cyber Security Specialist. Although full implementation had yet to be achieved against our earlier recommendations and the original implementation dates had, we note that a series of activities and processes have been undertaken and work is ongoing to ensure the recommendations are fully implemented as part of wider information governance and security arrangements. The Audit, Risk and Assurance Committee will continue to be updated on this issue on an ongoing basis. A copy of the report has been attached to this report.

### **Recruitment and Retention 2016/17**

Our report made nine recommendations to improve the overall control and effectiveness of the recruitment and retention arrangements. We found that progress had been made with the implementation of several recommendations but not in others. For example, our testing identified that Right to Work checks had not been undertaken prior to the employee start date in all instances.

We understand that an online recruitment system has been implemented to be further strengthened with greater workflow automation, dedicated resource has recently been engaged to support recruitment and selection processes, and Human Resource employees are required to undertake checklist monitoring to ensure files are complete, recruitment documentation is completed and retained, and all checks undertaken.

The Interim Head of Organisational Development has advised that the above mechanisms as well as ongoing review of processes and practices should ensure that full implementation of the outstanding recommendations will soon be reached. Revised implementation dates of immediate have been agreed for all outstanding red recommendations and 30 April 2018 for all outstanding amber recommendations



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Internal Audit Report  
Establishment of the Mayoral Office 2017-2018  
8 March 2018

# 1. Executive summary

## Introduction

An audit of the establishment of the Mayoral Office (including current operational processes) was undertaken as part of the approved internal audit plan for 2017-2018.

A central condition of the Devolution deal was the election of a West Midlands Mayor. The Mayor is elected for an initial three-year term. The Mayoral Office was established following the Mayoral election held on 4 May 2017.

On 17 March 2017, the West Midlands Combined Authority Board approved a budget for the Mayoral Office of £370,000 for the period 5 May 2017 to 31 March 2018 (£388,000 for the full year). Overall, expenditure was forecasted to be within budget when reported to the WMCA Board on 8 December 2017.

## Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that the establishment of the Mayoral Office and current operational processes relating to the Mayoral Office budget, were undertaken in accordance with the WMCA Constitution.

Scope	Potential risks
<p>The scope of the review included:</p> <ul style="list-style-type: none"> <li>• Budgetary control and monitoring</li> <li>• Recruitment</li> <li>• Payroll</li> <li>• Purchasing</li> </ul> <p>As part of the above, key lines of expenditure within the dedicated Mayoral Office budget were reviewed as well as compliance with the WMCA Constitution.</p>	<p>Human Resource, Financial Regulations and Contract Procedure Rules within the Constitution may not be fully complied with.</p>
Limitations to the scope of our audit	
<p>The review was limited to the above areas subject to review of all lines of expenditure within the budget and expenditure / income transactions against the Mayoral Office budget, to date. However, during the audit an additional budget was identified for events and this was also reviewed.</p>	

## Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide only **limited assurance** as part of the process to mitigate risks to an acceptable level.

Limited	Satisfactory	Substantial
<b>There is a risk of objectives not being met due to serious control failings.</b>	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.

## Key issues identified

We have identified one **red** and six **amber** issues where improvements could be made.

### Recruitment

- Employees' right to work checks were not undertaken prior to employee start dates as required by the Home Office, for six of the seven original Mayoral Office employees engaged post-election. (**red**)
- Scope for improving the records and decision-making process undertaken as part of the setup of the original compliment of Mayoral Office employees.
- For the one recruitment exercise undertaken within the Mayoral Office, interview and scoring records did not fully demonstrate the decision-making process undertaken and justification for the outcome / appointment.

### Budgetary control and monitoring

- Detailed budget monitoring was not undertaken by the Mayoral Office at a transactional level leading to miscodings and a duplicate payment not being identified.

### Purchasing

- Credit cards had been utilised by employees other than the cardholder in breach of the signed employee credit card agreement. This occurred both in the Mayoral Office and Business Support (Corporate Services). In addition, VAT receipts / invoices were not always provided by the cardholder to support credit card purchases and facilitate reclaiming of VAT.
- Contract Procedure Rules had not been fully complied with in one instance relating to an invoice totalling £16,574 (plus VAT), for which an order had not been raised and details had not been presented to Procurement prior to commitment of expenditure.
- Cheques / BACs requisitions were not always suitably authorised and checks prior to payment had not always been evidenced as appropriately undertaken.

We recognise that the Mayoral Office is a new service area and that it's establishment was undertaken in extremely short timescales post-election. Consequently, initial arrangements to engage employees that were already involved in the Mayor's election campaign may understandably not have followed the standard selection process.

While several issues have been identified where improvements and compliance was required, these should be viewed proportionately in the context of the Mayoral Office budget in relation to the overall WMCA budget.

Where recommendations relate to corporate processes, these have been agreed with the relevant service area within Corporate Services. All other recommendations have been agreed with the Mayor's Chief of Staff. In support of these recommendations, a lessons learnt exercise should be undertaken by Corporate Services in liaison with the Mayoral Office to help ensure that an appropriate protocol is developed to address future Mayoral changes.

The contents of this report will be presented to the Audit, Risk and Assurance Committee.

## Examples of good practice identified

During our work we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

### **Budgetary control and monitoring**

- A budget plan for the Mayoral Office was approved before the start of the financial year and before the Mayoral Office was established and correctly entered in Business World.
- A budget manager for the Mayoral budgets had been clearly identified.
- The Mayoral Office budget was being monitored on a regular basis by the Lead Accountant and the Chief of Staff (as budget manager) at a high level. In addition, the budget was also being discussed at the Leadership Team meetings.

### **Payroll**

- All employees had been set up on the payroll in accordance with the information received from Human Resources and their respective contracts of employment.
- Leavers have been actioned in accordance with the authorised leavers notifications.
- All employees were being paid in accordance with their respective contracts of employment.

### **Purchasing**

- An appropriate Scheme of Delegation had been approved for the Mayoral Office budget and Mayoral Events budget cost centres.
- Business World online transactions were suitably authorised in accordance with the Scheme of Delegation and demonstrated a suitable separation of duties.
- Monthly credit card expenditure was reviewed by the cardholders and their manager.
- Supporting documentation was retained and reviewed to support all credit card transactions by the cardholders.
- Payment of expense claims had been suitably authorised and processed.

## Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

## 2. Issues arising

Priority rating for issues identified:

### Red

Action is imperative to ensure that the objectives for the area under review are met

### Amber

Action is required to avoid exposure to significant risks in achieving objectives

### Green

Action is advised to enhance risk control or operational efficiency

Action is imperative to ensure that the objectives for the area under review are met  
Red

No	Issue arising	Agreed action including responsibility and target date
2.1	<p><b>Entitlement to Work</b></p> <p>We found that for six of the seven original employees, the required right to work checks had not been undertaken prior to the commencement of employment.</p> <p>Four employees were engaged on 8 May 2017, following the election of the Mayor on 4 May 2017. Whilst acknowledging the initial limited timescales involved at that time, the right to work checks had not been undertaken until 22 and 25 May 2017 respectively.</p> <p>We further identified that for the three employees who commenced employment in June 2017, in one case the check was undertaken on the start date, one check was undertaken the day after they started and in the remaining case, 10 days after the start date.</p> <p>We recognise that the original compliment of employees (who were engaged by the Mayor as part of his election campaign) were brought into the WMCA as part of the initial arrangements to establish the Mayoral Office. The Interim Head of Organisational Development advised that there was insufficient time to undertake all checks prior to engagement and the checks were undertaken when feasible.</p> <p>However, the right to work check must be undertaken by employers who employ employees under a contract of employment</p>	<p>For all future employees of the Mayoral Office right to work checks will be undertaken prior to commencement of employment.</p> <p><b>Responsibility:</b> Rita Rais – Interim Head of Organisational Development</p> <p><b>Target Date:</b> Immediate</p>

Action is imperative to ensure that the objectives for the area under review are met  
Red

No	Issue arising	Agreed action including responsibility and target date
	<p>prior to commencement to ensure that they are legally allowed to work. The Home Office legislation states that it is not enough to undertake the check on the first day of employment if the employment has already started.</p> <p><b>Implication</b> Breach of the Immigration Asylum and Nationality Act 2006.</p>	

Action is required to avoid exposure to significant risks in achieving objectives  
Amber

No	Issue arising	Agreed action including responsibility and target date
2.2	<p><b>Staffing establishment</b> We recognise that the Mayoral Office is a new service area and that its establishment was undertaken in extremely short timescales post-election. Consequently, initial arrangements to engage employees that were already involved in the Mayor's election campaign did not necessarily follow the standard recruitment and selection process that is now in place. However, at the time of the appointments there was email correspondence charting the thought and decision-making process behind the appointments.</p> <p><b>Implications:</b> The appointment process could be challenged.</p>	<p>Action will be taken to ensure appropriate documentary evidence is retained to support the decision making and approval undertaken in all cases, as part of future planning for staffing arrangements for the current and future Mayoral Offices.</p> <p><b>Responsibility:</b> Sean Pearce – Director of Finance</p> <p><b>Target date:</b> Immediate</p>

Action is required to avoid exposure to significant risks in achieving objectives  
**Amber**

No	Issue arising	Agreed action including responsibility and target date
2.3	<p><b>Recruitment</b>                      We found from review of the recruitment records for the post of the Personnel Assistant within the Mayoral Office that they did not include fully completed documentation to support the interview / selection process.                      We noted that only one of the three interview panellists had fully completed, scored and signed the interview records. The remaining two records had not been fully completed and only one signed.</p> <p>Consequently, the documentation held did not fully demonstrate the decision-making process undertaken and justification for the outcome / appointment.</p> <p><b>Implication</b>                      It may not be possible to fully evidence a transparent, fair process. This could lead to challenges to the recruitment process and damage to the reputation of the WMCA.</p>	<p>Documentation required as part of the interview process will be fully completed and signed, and the agreed outcome of the process will be clearly evidenced to demonstrate the decision-making process undertaken and justification for the outcome / appointment.</p> <p><b>Responsibility:</b> Rita Rais – Interim Head of Organisational Development</p> <p><b>Target Date:</b> Immediate</p>
2.4	<p><b>Budget Monitoring</b>                      We noted that whilst the Chief of Staff to the Mayor was undertaking periodic high-level reviews of the budget in liaison with the Lead Accountant (Planning and Performance) and that the current forecast indicates that expenditure will be within budget, the Mayoral Office was not undertaking detailed transactional monitoring.</p> <p>We found several miscoded transactions involving minor values against the Mayoral Office budget (MY10) that were not previously identified. The potential miscodings (mainly credit card payments / BACs requisitions) have been referred to the Planning and Performance team for investigation and corrective action, some have been confirmed as definite miscodings.</p>	<p>Budgets will be regularly reviewed and monitored by the Mayoral Office at a transactional level to ensure all the expenditure and income against the Mayoral Office budget is as expected and authorised.</p> <p>The Mayoral Office Budget Manager will ensure that access to transactional reports in Business World is obtained and granted to delegated employees to enable them to monitor expenditure and income to ensure it is appropriate.</p> <p>Outcomes of transactional monitoring will be taken account of within the monthly monitoring meetings held with Planning and Performance.</p> <p>A review of all expenditure and income in this year's budget has been commenced to</p>

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	<p>The Chief of Staff had advised that transactional monitoring could be undertaken in the future by the Executive Assistant once access is arranged to Business World to facilitate monitoring.</p> <p><b>Implication:</b> Budgetary information may not be fully accurate and complete.</p>	<p>ensure they are appropriate and any identified errors will be resolved in liaison with Planning and Performance.</p> <p><b>Responsibility:</b> Andrew Browning – Chief of Staff, Mayoral Office</p> <p><b>Target date:</b> 31 March 2018</p> <p>All identified miscodings will be reviewed by Planning and Performance and action will be taken to rectify these.</p> <p><b>Responsibility:</b> Linda Horne – Head of Finance and Business Planning</p> <p><b>Target date:</b> Immediate</p>
2.5	<p><b>Credit Card Usage</b></p> <p>We found that one of the credit cards issued to the Mayoral Office was routinely used by other employees within the Mayoral Office as confirmed through discussion with the Executive Assistant and review of a sample of credit card transactions coded against the Mayoral Office budget.</p> <p>The WMCA Cardholder Agreement signed by cardholders on receipt of a credit card clearly stated within the terms and conditions that the card should not be lent to or used by third parties.</p> <p>The Head of Business Support advised that although a card was issued to one member of the Business Support Team, the card was viewed as a team card and therefore used by several Team members. We also found that in a sample of 10 transactions, a VAT receipt had not been attached in eight instances. Whilst recognising that the payments made were of low value, we noted that VAT was paid in five instances. However, as there was no valid VAT receipt / invoice submitted the WMCA was unable to reclaim the VAT paid.</p>	<p>All employees with credit cards will be reminded that in accordance with the WMCA Cardholder Agreement:</p> <ul style="list-style-type: none"> <li>• Cards should only be utilised in accordance with the specified terms and conditions.</li> <li>• Cards should be held securely by the cardholder, and the card (and its details) should not be shared with anyone i.e. third parties.</li> <li>• A valid VAT receipt / invoice to support each purchase made via a credit card should be obtained.</li> </ul> <p>In addition, employees will be reminded of the penalties for failing to follow the terms and conditions in the Cardholder Agreement.</p> <p>The operational implications of the above restrictions will be reviewed and appropriate action taken to address service delivery requirements regarding the use of credit cards and the need for any additional cards.</p>

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	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>• Credit cards are not being utilised in accordance with the WMCA Cardholder Agreement terms and conditions.</li> <li>• Employees may find it difficult to refute allegations in the event of query or fraud as there is limited accountability for purchases being made.</li> <li>• WMCA may not be recouping all monies due.</li> </ul>	<p>The authorising officer for each cardholder will be reminded of the need to ensure that cardholders comply with the terms and conditions of the Cardholder Agreement and check that all required supporting documentation has been provided when authorising statements.</p> <p><b>Responsibility:</b> Linda Horne – Head of Finance and Business Planning</p> <p><b>Target date:</b> Immediate</p>
2.6	<p><b>Contract Procedure Rules compliance</b></p> <p>When reviewing transactions in the Mayoral Office budget we found that an invoice relating to the Mayoral Diwali event for £16,574 had been paid via telegraphic transfer and that an order had not been raised within Business World.</p> <p>As this payment was made directly via telegraphic transfer, the transaction would not have followed the standard automated Business World Accounts Payable compliance process. Consequently, the transaction was not automatically presented to Procurement prior to actioning in accordance with Contract Procedure Rules for expenditure over £5,000. Procurement had advised that they had not been sighted on this expenditure but if they had been, a supplier record would have been created and an order raised within Business World.</p> <p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>• Non-compliance with the WMCA’s Contract Procedure Rules.</li> <li>• Value for money may not be obtained or may be difficult to demonstrate.</li> </ul>	<p>All expenditure against the Mayoral Office budget will be undertaken in accordance with the WMCA’s Contract Procedure Rules (via both electronic and manual processing).</p> <p>Manual transactions will be fully evidenced as compliant with Contract Procedure Rules with suitable retention of quotes and approvals from budget managers and Procurement.</p> <p>Wherever possible, orders will be raised within Business World prior to receipt of invoice to ensure that the expenditure is committed against the budget and the standard / automated process is complied with.</p> <p><b>Responsibility:</b> Andrew Browning – Chief of Staff, Mayoral Office</p> <p><b>Target date:</b> Immediate</p> <p>In support of the above actions, discussions will be undertaken with the WMCA Procurement Manager to consider the Mayoral Office’s procurement needs and determine the most appropriate procurement arrangements / mechanisms to address those needs as and when they arise whilst ensuring compliance.</p> <p><b>Responsibility:</b> Andrew Browning – Chief of Staff, Mayoral Office  <b>Target date:</b> 31 March 2018</p>

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No	Issue arising	Agreed action including responsibility and target date
2.7	<p><b>Cheques / BACs requisition transactions</b>            We identified several payments from the Mayoral Office budget that were actioned via cheques / BACs requisitions.            We understand the requisition can either be completed by the service area or by Business Support on their behalf and are then authorised by the delegated approver / budget manager. Finance process these payments on receipt of the requisition and supporting evidence i.e. receipts, invoices. We further understand that this method of payment was largely used with Sundry Creditors in emergencies or for one-off orders where a supplier had not been previously set up in Business World.</p> <p>Testing of a sample of five transactions paid via manual requisitions identified that:</p> <ul style="list-style-type: none"> <li>• One payment had not been authorised and had also been miscoded to the Mayoral Office budget.</li> <li>• One payment had been authorised by someone who was not listed as an authorised signatory under the Scheme of Delegation for the Mayoral Office budget.</li> <li>• Payment for the same expenditure item had been requisitioned twice by Business Support on receipt of instructions from the Mayoral Office and both had been processed for payment but this had not been detected. We identified that the first payment made was incomplete and the second was paid in full but for a higher amount than required. This was reported to Finance who have confirmed that a duplicate payment had occurred and would be corrected.</li> </ul>	<p>The respective budget managers for the Mayoral Office and Business Support will remind their employees that:</p> <ul style="list-style-type: none"> <li>• Cheques / BACs requisitions should be fully completed.</li> <li>• Certified as approved in accordance with the Scheme of Delegation.</li> <li>• Only employees who can confirm that prices are correct, goods had been received and checked to order should certify these sections on the requisition.</li> </ul> <p><b>Responsibility:</b>            Mayoral Office – Andrew Browning, Chief of Staff.             Business Support – Rita Rais, Interim Head of Organisational Development</p> <p><b>Target date:</b> Immediate</p> <p>As part of transactional budget monitoring by the Mayoral Office, checks will be undertaken against the transactional budget reports (and evidenced) to ensure that payments are made accurately, completely and only once.</p> <p><b>Responsibility:</b> Andrew Browning – Chief of Staff, Mayoral Office</p> <p><b>Target date:</b> 31 March 2018</p> <p>Prior to processing, Accounts Payable will check that the requisition form received has been authorised by an appropriate budget manager in accordance with the relevant Scheme of Delegation. Any not fully completed and / or not signed in accordance with the Scheme of Delegation will be referred to the budget manager.</p>

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No	Issue arising	Agreed action including responsibility and target date
	<ul style="list-style-type: none"> <li>• In two instances the requisition form had not been fully completed to evidence confirmation of prices as correct, goods received and checked to order.</li> <li>• In one instance where the requisition had been completed by Business Support, there was no clear explanation regarding the basis / evidence upon which the checks were confirmed as completed.</li> </ul> <p>We noted that checks to confirm whether payment had been made previously may not be routinely undertaken.</p> <p><b>Implication:</b>                      Unauthorised, incorrect and unsupported payments are being made.</p>	<p><b>Responsibility:</b> Linda Horne – Head of Finance and Business Planning</p> <p><b>Target date:</b> Immediate</p>

## Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

### Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

**Date Issued:** 8 March 2018

**Report distribution:** Sean Pearce – Director of Finance  
Andrew Browning – Chief of Staff, Mayoral Office  
Tim Martin – Head of Governance  
Rita Rais – Interim Head of Organisational Development  
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