

Audit, Risk and Assurance Committee

Date	30 January 2024
Report title	Internal Audit Update
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@WMCA.org.uk
Accountable Employee	Helen Edwards, Director of Law and Governance Email: Helen.Edwards@WMCA.org.uk
Report has been considered by	N/A

Recommendation(s) for action or decision:

1. The Audit, Risk and Assurance Committee is recommended to:

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

2. Purpose

2.1 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.

3. Background

3.1 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.

3.2 The reports will feed into the 23/24 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 will be used to feed into the Annual Governance Statement that accompanies the Annual Statement of Accounts.

4.0 Wider WMCA Implications

4.1 There are no implications

5.0 Financial implications

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

6.0 Legal implications

6.1 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.

7.0 Equalities implications

7.1 There are no implications

8.0 Other implications

8.1 Not applicable

9.0 Schedule of background papers

9.1 None

10.0 Appendices

Appendix 1 – Budgetary Control audit report

Appendix 2 – General Ledger audit report

Appendix 3 – Payroll audit report

Appendix 4 – Treasury Management audit report

Appendix 5 – 2023/24 Internal Audit plan



West Midlands Combined Authority

Internal Audit Update Report – 30 January 2024

1 Introduction

The purpose of this report is to bring the Audit, Risk and Assurance Committee up to date with the progress made against completing delivery of the 2023/24 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 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.

Where appropriate each report issued during the year is given an overall opinion based on the following criteria:

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 is 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 exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

2 Summary of progress

The following internal audit reviews have been completed or are in progress.

Auditable area	ANA ¹ Rating	Level of assurance obtained
Internal Audit Reviews previously reported		
Procurement Exemption arrangements	High	Limited
IR35	High	Limited
Adult Education Budget	High	Satisfactory
External Funding Arrangements	High	Satisfactory
Gifts and Hospitality arrangements	High	Limited
Health & Safety	Medium	Satisfactory

¹ Audit Needs Assessment rating

Auditable area	ANA ¹ Rating	Level of assurance obtained
Audit Reviews completed this period		
KFS - Budgetary Control	High	Substantial
KFS - General ledger	High	Substantial
KFS - Payroll	High	Satisfactory
KFS - Treasury Management	High	Satisfactory
Audits in progress		Status
TfWM review	n/a	In progress
Adult Education Budget – Procurement	High	In progress
Key Financial Systems (KFS) Accounts payable Accounts receivable	n/a	In progress
Contract Management	High	In progress
Monitoring & Evaluation	High	In progress
Swift	High	Resourcing allocated
NFI	Medium	Resourcing allocated
Business Continuity	Medium	Resourcing allocated

3. *Audits completed this period*

Key Financial Systems

A review of the WMCA's key financial systems has been completed as part of the 2023/24 internal audit plan, with the objective being to provide assurance that adequate controls are in place for the administration of key financial systems, and these are operating in accordance with the Financial Regulations and documented procedures.

This audit included a review of the 6 functions that form the overarching financial systems, and as the previous year's audits resulted in a substantial audit rating for 4 of the 6 functions, the audit of these areas was limited to a high-level review only on this occasion.

A review of the delivery of all audit actions arising from the 22/23 key financial systems audits was included as part of this review, and attention was also given to the arrangements in place within Treasury Management to provide assurance the measures taken in response to a previously identified control issue of the maximum allowance of Forward Dealt Loans, had been resolved and that the system remains fit for purpose.

A summary of the audit outcomes is shown in the table below, with full details of the findings contained in the associated reports, attached as appendices 1 to 4. It should be noted the Accounts Payable and Accounts Receivable audits remain outstanding at the present time and will be reported to this committee upon completion.

System	22/23 audit rating	23/24 audit rating	Recommendations		
			Red	Amber	Green
Budgetary Control	Substantial	Substantial	-	0	0
General Ledger	Substantial	Substantial	-	0	0
Payroll	Satisfactory	Satisfactory	-	3	1
Treasury Management	Substantial	Satisfactory	-	1	1

4 Unplanned audit activity

The team carried out one external grant certification in December 2023 to fulfil the requirement for an “Independent Reasonable Assurance Report (“Accountant’s Report”)”, as required by the external funding body. The programme is funded by Innovate UK with its purpose being to support the West Midlands Innovation Programme in delivering the innovation framework that sits within the West Midlands Plan for Growth.

On completion, Internal Audit was able to provide assurance to the supplier that all funding has been utilised in accordance with the funding terms and conditions.

5 Follow-up of previous recommendations

Progress of audit actions resulting from previously reported audits are detailed in the table below.

Progress Monitoring Update							
Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Completed*
				Red	Amber	Green	
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	30/09/23	-	1	-	1
MML	n/a	22/06/22	31/12/22	-	1	-	1
WM2041	Satisfactory	19/10/22	31/01/23	-	3	1	4
Information Assurance and Cyber Security	Satisfactory	05/01/23	30/09/23	-	5	13	17
Key Financial Systems	Substantial/ Satisfactory	03/02/23	31/05/23	-	5	3	8
Payroll	Satisfactory	09/03/23	06/04/23	-	2	5	7
Procurement Exemptions	Limited	21/06/23	31/12/23	1	2	2	3
IR35	Limited	19/06/23	30/09/23	1	4	-	2
Gifts and Hospitality	Limited	22/09/23	31/12/23	2	2	-	0
External Funding arrangements	Satisfactory	25/08/23	31/03/24	-	4	-	0
Adult Education Budget	Satisfactory	25/07/23	31/07/23	-	1	3	4
Health & Safety	Satisfactory	16/11/23	31/01/24	-	1	-	1

* The number of recommendations completed reflects the opinion of the auditee only and the status as at 31 December 2023.

Ten actions are currently recording a delay to delivery against the target date originally set. These include;

- **Cyber security:** A review of improved systems for the monitoring of data security has been completed with a preferred system having been determined for the automated monitoring of cyber threats. Budgetary requirements are currently being assessed and sourced.
- **Procurement Exemptions:** A review of the Purchasing Manual has been completed with a revised draft manual currently being assessed by relevant parties prior to final approval being sought in February 2024. The remaining 2 actions will be considered complete once approval has been obtained.
- **IR35:** Additional resources have been obtained to support delivery of the 3 outstanding audit actions including the development of a framework that will set out the parameters of the contingent worker recruitment and IR35 process. The framework will enable all hirers across WMCA to administer a streamlined approach in the recruitment of contingent workers. Whilst it is anticipated the framework will be complete by December 2024, immediate action has been taken to respond to the timescales for completing IR35 requirements.
- **Gifts & Hospitality:** The gifts and hospitality policy has been updated and is awaiting approval. When obtained, this will inform the required actions resulting from the 4 remaining recommendations identified in the audit. Interim measures were put in place to accommodate the declaring gifts and hospitality during the festive season with the recording of items having subsequently been evidenced by Internal Audit.

6. *Delivery of the Internal Audit plan*

As highlighted in the December update to ARAC, staffing constraints and the requirement to redirect resources to unexpected matters has resulted in our inability to deliver the 23/24 Internal Audit plan in full, as planned.

A review has been undertaken to prioritise audits that must be completed in year, alongside consideration of planned audits where the risk exposure has significantly reduced or where operational changes have been made in-year to determine where audits are no longer required or can be deferred to the 24/25 internal audit plan with no detriment to the associated risk.

Internal Audit is currently operating with 4 contractor auditors in place and as at 1st January 2024, it is anticipated this will provide 228 days of resources for auditing purposes. An allowance of 20 days has been allocated for the completion of each audit, and an expectation each officer will have up to 3 audits in progress at any time. Based on these figures it is estimated that the audit team has the capacity to progress 10 further audits, including those already in progress, by the end of the financial year, as shown in the table below.

In progress	For progression in Q4	To be deferred/removed
Accounts Payable	Swift	Decision making
Accounts Receivable	NFI	Active Travel Fund
Adult Education - Procurement	Business Continuity	Asset Acquisition and Disposal framework
Contract Management	UK shared prosperity Fund	Activity register
Monitoring & Evaluation	Energy Efficiency Retrofit	Deeper Devolution deal
Grant certifications x 2	Operator charging	

Details of the current risk environment and reasons for the removal or deferral of an audit has been recorded in the overall plan, attached as appendix 5 for information.

With two audits from the plan having been completed and presented to ARAC previously, this will represent progression of 77%² of the original 2023/24 internal audit plan, as approved by ARAC in April 2023. It should be noted however, this is subject to any unknown changes in the availability of resources and/or the receipt of any unplanned audits or investigations requiring priority attention because of potential fraud or whistleblowing matters.

Whilst the on-boarding of the new in-house audit team will be completed before the end of the 23/24 financial year, it is expected the team will require a period of time for induction and the development of new policies and procedures. They have therefore not been included as available resources for the purposes of this review.

² Key Financial systems has been calculated as 6 individual audits, resulting in 22 audits being contained in the original audit plan.