



West Midlands Combined Authority

Internal Audit Report:

“Key Financial Systems - Budgetary Control”

Report Date: 15 January 2024

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1. Executive summary

Introduction and Background

- 1.1 A review of the WMCA's budgetary control system was carried out by Internal Audit as part of the annual Internal Audit Plan 2023/24 approved by ARAC. The objective of the review was to seek assurance regarding the effectiveness of budgetary control within WMCA.
- 1.2 All the WMCA's key financial systems are considered to have a potential effect on the annual accounts. Therefore, this audit reviews is undertaken on an annual basis. The controls tested as part of this review are deemed as core controls.
- 1.3 The last review of budgetary control was completed on January 2023. The opinion was Substantial Assurance.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	To seek assurance that adequate controls are in place for the purpose of budgetary control and are operated in accordance with the Combined Authority's Financial Regulations and Contract Procedure Rules.
System Risks:	The following system risks were identified: <ul style="list-style-type: none">• There is a risk of running overbudget where there is a lack of budgetary control, leading to financial loss and reputational damage.• There is a risk of financial loss and damage if the budget is not prepared in accordance with standard guidance and the budget timetable.• Where there is a lack of budgetary control there is a risk of the authority not achieving its goals and objectives, leading to reputational damage.
Limitation of Scope	The review did not cover capital budgets

Overall conclusion

Our conclusion is that the framework is strong, and compliance is Good. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is “Effective”. This means our audit provides **Substantial** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

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.

Key issues identified

We did not identify any key issues during the review. However it was noted that the audited accounts for 2022/23 had not yet been published as at the time of the review, although a presentation was made by Grant Thornton to the Audit Committee on the 4th December 2023 highlighting issues, along with hopes for the audit process for the year ending 31 March 2024 to progress at a faster pace, to meet the deadline of 30th September 2024. Therefore, no recommendation has been raised.

Examples of good practice identified

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

- There is comprehensive guidance and templates issued to members of staff involved in budget preparation, and a timetable with key dates for completion.
- Our testing confirmed that the key dates for the approval of the draft budget and final budget at the WMCA Board were met prior to the financial year.
- Our testing confirmed that the figures in the approved budget reconciled to financial records with no discrepancies noted.
- There is appropriate financial monitoring and reporting undertaken. As part of the review work was undertaken to confirm that these reports were presented to boards and contained sufficient and accurate information.
- Cost centres are allocated to responsible budget managers.
- Where underspends occurred in the testing undertaken, appropriate remedial action was carried out.

Acknowledgement

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

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.

Stage	Date
Draft issued	09 January 2024
Exit meeting	n/a
Final issued	15 January 2024
ARAC reporting	30 January 2024