



# West Midlands Combined Authority

## Internal Audit Report:

### *“Key Financial Systems – General Ledger”*

**Report Date:** 15 January 2024

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## 1. Executive summary

### Introduction and Background

- 1.1 A review of the WMCA's general ledger 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 the general ledger 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 review 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 the general ledger 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 the general ledger 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"><li>• Where there are errors in recording and updating the general ledger there is a risk of accounts not being properly classified leading to reputational damage.</li><li>• Where there is unauthorised access to the general ledger there is a risk of fraud leading to financial loss.</li><li>• Where there are inadequate controls in place there is a potential loss of data leading to financial loss and reputational damage.</li></ul> |
| Limitation of Scope | There were no limitations in scope.  |

## 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. | <b>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.</b> |

## Key issues identified

We did not identify any key issues during the review.

## 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:

- Control accounts had been reconciled over the period examined and were update to date as of January 2024.
- Ticketing control accounts were reconciled on a regular basis.
- Responsibility for reconciliation and review of the bank statements to the General Ledger had been appropriately assigned and testing confirmed that these processes were being undertaken.
- Responsibility for reconciliation and review of the validation error codes had been appropriately assigned and testing confirmed that these processes were being undertaken.
- An additional level of assurance was provided from a monthly report on the level of overall balances and the explanation of movements provided for the required reconciliations.
- Changes to cost centres / account codes are appropriately authorised.

- Opening balances for 2023/24 had been correctly input into Business World and were in accordance with closing balances for 2022/23.
- Journals were authorised in accordance with the scheme of delegation and access controls and are processed on a timely basis.

### 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   | 10 January 2024 |
| Exit meeting   | n/a             |
| Final issued   | 15 January 2024 |
| ARAC reporting | 30 January 2024 |