



# West Midlands Combined Authority

## Internal Audit Report:

# *“Key Financial Systems – Accounts Payable”*

Report Date: 27 February 2024

Report Distribution:

William Godden, Accounts Payable, Accounts Receivable  
Manager

Louise Cowen, Head of Financial Management

Linda Horne, Executive Director of Finance and Business  
Hub

## 1. Executive summary

### Introduction and Background

- 1.1 A review of the WMCA's accounts payable 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 the accounts payable function 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 accounts payable was completed in January 2023. The opinion was Satisfactory 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 Accounts Payable function 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 adequate controls are not in place for payments there is a risk of financial loss due to fraud.</li><li>• Where there is inadequate separation of duties, there is a risk of fraud leading to financial loss and reputational damage.</li><li>• Where late payments are made there is a risk of reputational damage.</li></ul>
Scope:	In line with the agreed Terms of Reference the scope of this audit covers the controls and processes in place within the Accounts Payable systems from April 2023 to October 2023 regarding the day to day operation but extended as necessary to cover the remedial activities relating to the concerns recently reported to Statutory Officers.
Limitation of Scope	There were no limitations in scope.

### Overall conclusion

Our conclusion is that the framework is adequate, and compliance is adequate. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is "Adequate". This means our audit provides Satisfactory 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
<p>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.</p>	<p>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.</p>	<p><b>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></p>	<p>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.</p>

## Key issues identified

We rate each issue identified in section 2 below, based on the following:

<b>Red</b> Action is imperative to ensure that the objectives for the area under review are met	<b>Amber</b> Action is required to avoid exposure to significant risks in achieving objectives	<b>Green</b> Action is advised to enhance risk control or operational efficiency
--	---	---

We have identified one **red** issue (See section 2 below) where improvements could be made, arising from the following issue:

### Spreadsheet Uploads:

- At present spreadsheet uploads are used on a monthly basis for concessions payments for transport operators, where budget holders approve these payments. It was noted that in two out of the three months reviewed the budget holder approved payments above their level of authority according to the Scheme of Delegation.

### Overpayment of a supplier

Internal Audit reviewed the actions taken by service management to address the overpayment concerns reported to Statutory Officers in September 2023 to ascertain whether appropriate remedial actions had been taken to address the issues, and the system remained fit for purpose.

In context, an overpayment was made to an Adult Education provider in May 2023 when the Adult Education BACs file for the month was processed for payment. The supplier alerted WMCA during the following week and the entire payment file was checked straight away and it was confirmed that the supplier concerned was the only provider affected by the issue. The overpayment which was made as part of the supplier's regular Adult Education funding agreement was duly recovered and replaced with the correct payment to the provider.

There were two urgent actions relating to the Accounts Payable function which were to be implemented ahead of the scheduled Adult Education payment run approved for payment in June 2023:

- 1) BACs payment files must be created with a separate file for each 'transaction type' to ensure a secondary check is made on the total file value once it has been processed. In this case, the total file approved was £10,615k. An independent person will be required to check this is still the case after the initial payment proposal has been created in the system before approving the payment proposal.
- 2) A second independent check on the total value of Adult Education BACs files will be made by a Deputy s151 Officer, utilising the BACs Teams channel, prior to its submission for payment.

Our testing as part of the review confirmed that these two urgent actions have been implemented and are both working effectively as a control mechanism.

### 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:

- Purchase orders had been suitably raised and appropriately approved in accordance with the Scheme of Delegation for each invoice payment against these orders.
- Where required, Procurement approval had been suitably evidenced within workflow within Business World.
- Invoice details agreed to the corresponding purchase order and goods receipting (per Business World) in all cases tested.
- A separation of duties was suitably in place and evidenced in all cases tested regards ordering, goods receipting and authorisation.
- Payment runs were appropriately processed and authorised.
- Amendments to supplier records were adequate and authorised appropriately.

### 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. Findings and recommendations

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

### 1. Spreadsheet approvals

#### Findings:

At present spreadsheet uploads are used on a monthly basis for concessions payments for transport operators, where budget holders approve these payments. These spreadsheets contain payments for a large number of transport operators, with the spreadsheet and subsequent email confirmation acting as authorisation for the AP team to upload for payment.

It was noted during the review that for two out of three months reviewed, June and July 2023, the amount approved was greater than the approval levels within the scheme of delegation. For the month of August, there was no issue as there was an appropriate level of approval.

- For June 2023, the amount of £3.8m was approved by a budget holder who had a limit of £500K
- For July 2023, the amount of £4.07m was approved by a budget holder who had a limit of £500k.

Furthermore, it was noted that this same finding and recommendation was raised and agreed in the previous year's review with a target date of completion of 31<sup>st</sup> March 2023, and as such a red rating finding has been issued.

#### Implications:

Where adequate controls are not in place for payments there is a risk of financial loss due to fraud.

#### Recommendations:

Payments Officers must check the authorisation against the limits set in the Scheme of Delegation and to seek alternative approval arrangements to eliminate this issue in the future.

#### Agreed Actions/Management Comments:

- (1) Payments Officers will ensure authorisations are strictly within the limits set in the approved Scheme of Delegation with immediate effect.
- (2) Automation of the approval of payments through Business World Finance system workflow will be investigated as a potential solution to enhance the control environment.

#### Responsible Officers:

AP/AR Manager

#### Target Date:

- (1) Immediate
- (2) 31 July 2024

### 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	02/02/2024
Exit meeting	26/02/2024
Final issued	27/02/2024
ARAC meeting date	11/03/2024