

Audit, Risk and Assurance Committee

Date	11 March 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, however,

to accommodate the requirements of reporting a draft Annual Governance Statement to this committee, a provisional audit opinion has been provided at this time and is presented in section 7 of the attached report.

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 – Accounts Payable audit report
Appendix 2 – Accounts Receivable audit report
Appendix 3 – National Fraud Initiative audit report



West Midlands Combined Authority

Internal Audit Update Report – 11 March 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		
Adult Education Budget	High	Satisfactory
External Funding Arrangements	High	Satisfactory
Gifts and Hospitality arrangements	High	Limited
Health & Safety	Medium	Satisfactory
KFS – Budgetary Control	High	Substantial

¹ Audit Needs Assessment rating

Auditable area	ANA ¹ Rating	Level of assurance obtained
KFS – General Ledger	High	Substantial
KFS - Payroll	High	Satisfactory
KFS – Treasury Management	High	Satisfactory
Audit Reviews completed this period		
TfWM review	n/a	Please see separate report
KFS - Accounts Payable	High	Satisfactory
KFS – Accounts Receivable	High	Satisfactory
National Fraud Initiative	Medium	Satisfactory
Audits in progress		Status
Adult Education Budget – Procurement	High	In progress
Contract Management	High	In progress
Monitoring & Evaluation	High	In progress
Swift	High	In progress
Business Continuity	Medium	In progress
Operator Charging	Medium	Scoping of audit
UK shared prosperity fund	Medium	Scoping of audit
Energy efficiency retrofit	Medium	Scoping of audit

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.

Budgetary Control, General Ledger, Payroll and Treasury Management were completed and reported to ARAC at its meeting on 30th January 2024. Accounts Payable and Accounts receivable are now reported following their conclusion with both audits being awarded a Satisfactory audit rating.

A summary of the audit outcomes of each of the systems reviewed as part of the Key Financial systems audit is provided below.

System	22/23 audit rating	23/24 audit rating	Recommendations		
			Red	Amber	Green
Accounts Payable	Satisfactory	Satisfactory	1	-	-
Accounts Receivable	Substantial	Satisfactory	-	5	-
Budgetary Control	Substantial	Substantial	-	-	-
General Ledger	Substantial	Substantial	-	-	-
Payroll	Satisfactory	Satisfactory	-	3	1
Treasury Management	Substantial	Satisfactory	-	1	1

Recommendations identified in the Accounts Payable and Accounts Receivable audit reports include:

- Authorisation of transactions to be monitored against the limits set out in the Scheme of Delegations
- Procedure notes to be developed for the raising of invoices, credit notes and debt recovery.
- Development of a Debt Recovery Policy.
- A review of the KPI and monthly Controls Information Report.
- Financial Regulations documentation to be updated on the WMCA intranet site.
- Old carried forward debts to be assessed for recovery or write off.

Full details are contained within the audit reports, attached as appendix 1 and 2.

National Fraud Initiative

A review of delivery of the National Fraud Initiative (NFI) exercise has been completed as part of the 23/24 internal audit plan with the scope of the audit being to 'review WMCA's processes to ensure it meets all obligations of the 22/23 NFI exercise including the response to identified data matches'.

The outcome of the review concluded that Satisfactory arrangements are in place, with one amber and 2 green recommendations being identified for action by the department. These included:

- Formal governance arrangements to be established in the form of an NFI policy.
- The reporting of NFI outcomes to management and ARAC to be considered.
- Investigation and resolution of the remaining matches to be completed.

Further details are provided in the full report, provided as Appendix 3.

4 Unplanned audit activity

The team carried out two external grant certifications during this period to fulfil the requirement for periodic "Independent Reasonable Assurance Reports ("Accountant's Report")", as required by the external funding body. Both programmes were funded by Innovate UK, and on completion, Internal Audit was able to provide assurance that all funding had 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	18
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
Payroll	Satisfactory	11/01/24	30/04/24	-	3	1	3
Treasury Management	Satisfactory	16/01/24	31/03/24	-	1	1	0

* The number of recommendations completed reflects the opinion of the auditee only and the status as at 31 January 2024.

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

- **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. The remaining 2 actions will be considered complete once approval has been obtained.
- **IR35:** Additional resources are being 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 4 remaining actions resulting from the recommendations identified in the audit. Interim measures were put in place to accommodate the declaring of gifts and hospitality during the festive season with the recording of items having subsequently been evidenced by Internal Audit.

6 *2024/25 Internal audit plan*

Development of the 2024/25 Internal Audit plan has been withheld, pending the recruitment of the Head of Internal Audit and Information Governance, who will be joining the organisation in March 2024.

A review of the strategic risk register and discussion with functional Directors will inform the detail of the plan and will be shared with ARAC at its next meeting for review and approval.

7 *Provisional Annual Internal Audit Opinion*

In preparation for the draft Annual Governance Statement being presented to ARAC (see agenda item 8), a provisional annual audit opinion has been prepared at this time.

Due to there being no formal Head of Internal Audit within WMCA at the present time, the opinion has been provided by Bami Cole, who is a Chartered Internal Auditor and has been providing auditing services as a contractor for the authority since January 2023.

'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, we can provisionally² provide **reasonable assurance** that the Combined Authority has adequate and effective governance, risk management and internal control processes in place'.

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

- We gave limited assurance in only one area (Gifts and Hospitality Arrangements)
- We gave satisfactory assurance opinions in eight areas.
- We gave substantial assurance opinions in two areas.
- We took account of satisfactory progress being made by management to implement previously agreed recommendations.
- All reviews considered to be within high-risk areas are either completed or in progress.
- The remaining reviews to be completed by year end are all medium risks.

² At the time of this report there were five further audit reviews in progress and three allocated, to be completed within the timeframe required for inclusion in the Annual Internal Audit Report. Although the indications are that these reviews are likely to be completed within the required timeframe, it would be reasonable to assume that should serious issues of concern arise to prevent the reviews from progressing, or during the reviews, this could potentially impact on the level of assurance that could be provided and therefore the overall annual audit opinion.