



Audit, Risk & Assurance Committee

Date	14 January 2019
Report title	Internal Audit Update
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Report has been considered by	Not Applicable

Recommendation(s) for action or decision:

Audit, Risk and Assurance Committee is recommended to:

(1) Note the contents of the latest Internal Audit Update Report.

1. Purpose

- 1.1 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.

2. Background

- 2.1 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.

- 2.2 The reports will also feed into the 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 can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

3. Wider WMCA Implications

- 3.1 There are no implications.

4. Financial Implications

- 4.1 There are no implications.

5. Legal Implications

- 5.1 There are no implications.

6. Equalities Implications

- 6.1 There are no implications.

7. Other Implications

- 7.1 There are no implications.

8. Schedule of Background Papers

- 8.1 There are no implications.

9. Appendices

This report is PUBLIC [NOT PROTECTIVELY MARKED]



Internal Audit Update Report Quarter 3 2018-2019

Delivered by City of Wolverhampton Council – Audit Services

1 Introduction

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2018 - 2019 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 work 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.

The information included in this progress report will feed into and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

Nine pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2018/19 (@ Q3)	2017/18	2016/17
Substantial	6	6	5
Satisfactory	3	7	4
Limited	0	2	2

2 *Summary of progress at quarter three*

The following audit reviews were completed by the end of the second quarter of the current year. Reports containing amber or above rated recommendations are appended to this report at Appendix 1 and Appendix 2.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2018-2019 Audits Completed in previous quarter:							
Health and Safety Arrangements	High	-	2	5	7	7	Satisfactory
Asset Management Arrangements	Medium	-	1	2	3	3	Satisfactory
Expenses, Gifts and Hospitality (2017/18) follow-up review	Medium	-	1	3	4	4	Recommendations implemented
2018-2019 Audits Completed in this quarter:							
Accounts Payable	High	-	-	1	1	1	Substantial
Accounts Receivable	High	-	-	1	1	1	Substantial
Payroll	High	-	-	-	-	-	Substantial
Budgetary Control	High	-	-	-	-	-	Substantial
General Ledger	High	-	-	-	-	-	Substantial
Treasury Management	High	-	-	-	-	-	Substantial
Human Resources Workforce Planning (Appendix 1)	High	-	1	-	1	1	Satisfactory
Data Security Arrangements (2017/18) follow-up review	High	1	3	-	4	4	Recommendations implemented

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Cyber Security Arrangements (2016/17) follow-up review	High	1	6	-	7	7	One red and four amber recommendations implemented. Progress noted for remaining two amber recommendations.
Human Resources Recruitment and Retention (2016/17) follow-up review	High	6	2	1	9	9	Recommendations implemented
Transport Capital Programme Prioritisation (2017/18) follow-up review	High	-	2	1	3	3	Two amber recommendations implemented. Progress noted for remaining green recommendation.

3 *Forward Plan for scheduled audits*

Auditable area	Rating	Start Date	ARAC Report Date
Business Continuity (originally due January 2019)	High	Draft report issued	April 2019
Budget Management Role and Responsibilities (originally due January 2019)	Medium	Draft report issued	April 2019
TfWM Network Emergency Plan (originally due January 2019)	High	In progress	April 2019

Auditable area	Rating	Start Date	ARAC Report Date
Joint Data Team Initiative (originally due in January 2019)	High	In progress	April 2019
Birmingham Eastside Extension Project	High	In progress	April 2019
Business Planning Arrangements	High	January 2019	April 2019
Devolution Deal Objectives and Financial Assumptions	High	January 2019	April 2019
WMCA Governance Arrangements	High	February 2019	April 2019
Midland Metro Operational Transfer	High	February 2019	April 2019

4 *Follow-up of previous recommendations*

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee.

Auditable area	Level of assurance	Recommendations				Start Date	ARAC Report Date
		Red	Amber	Green	Total		
Establishment of the Mayoral Office (2017/18) follow-up review (originally January 2019)	High	1	6	-	7	In progress	April 2019
Programme Management Office Project Appraisal and Support Functions	Satisfactory	-	4	2	6	January 2018	April 2019
Investment Programme - Governance Arrangements for Project Appraisal and Approval	Satisfactory	-	8	-	8	January 2019	April 2019
Management of IR35	Satisfactory	-	4	3	7	February 2019	April 2019

Auditable area	Level of assurance	Recommendations				Start Date	ARAC Report Date
		Red	Amber	Green	Total		
National Fraud Initiative	Satisfactory	-	2	4	-	February 2019	April 2019

Appendix 1



West Midlands Combined Authority

**Internal Audit Report
Workforce Planning Arrangements 2018 - 2019
20 December 2018**

Delivered by City of Wolverhampton Council – Audit Services

1. Executive summary

Introduction

An audit of the WMCA's workforce planning arrangements in support of resource planning, capacity and capability strategy was undertaken as part of the approved internal audit plan for 2018–2019.

Workforce planning as defined by the Chartered Institute of Personnel and Development is a core business process to align changing organisation needs with people strategy and involves a process of analysing the current workforce, determining future workforce needs, identifying the gap between the present and the future, and implementing solutions so that an organisation can accomplish its mission, goals, and strategic plan. In addition, best practice includes alignment between workforce planning and organisational strategy as well as core business processes.

In recent time the WMCA had a total number of vacancies to be recruited during the 2018-2019 period of 105.48 full time equivalent posts. However, taking account of turnover from the previous year, the number increased to potential vacancy management of 158 posts.

Consequently, the WMCA has been through a fairly rapid recruitment process, particularly at a senior level, to ensure that it has the right appointments in place to take the WMCA forward in line with its strategic aims and objectives.

This audit reviewed the strategic and operational arrangements that contribute to workforce planning activities that help inform strategic management regarding current and future workforce requirements, issues and risks within the complex delivery and funding model and environment that the WMCA currently operates as well as recognition of future delivery and funding requirements as far these can be foreseen.

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that appropriate arrangements are in place for effective workforce planning that supports and aligns with organisational strategy and business planning to ensure appropriate skills and capacity are developed to achieve organisational success in delivering services in the future.

Scope	Potential risks
<p>The scope of the review included the following area regarding workforce planning:</p> <ul style="list-style-type: none"> • Workforce planning strategy. • Strategic and organisational alignment. • Understanding the organisation and its environment. • Analysis of current and potential workforce. • Determination of future workforce requirements. 	<ul style="list-style-type: none"> • Workforce planning may not align with successful delivery of strategic objectives and business planning. • Critical resource risks may not be appropriately addressed because of ineffective workforce planning as a key mitigating action. • Poor organisational and employee performance as well as productivity

- Identification of workforce gaps against future needs.
- Development of action plans to address shortages, surpluses or skills mismatches.
- Monitoring, evaluation and reporting arrangements regarding action plans and solutions.
- Risk management arrangements.

As part of the above areas reference was made to relevant strategies, governance, roles and responsibilities, and management information utilised to support workforce planning arrangements.

levels may undermine achievement of strategic objectives.

Limitations to the scope of our audit

The review was limited to the above areas.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide **satisfactory assurance** as part of the process to mitigate risks to an acceptable level.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Key issues identified

We have identified one **amber** issue where improvements could be made. Current strategic and organisational mechanisms that contribute to and underpin strategic workforce planning could be improved through greater formalisation within a clear strategic and operational framework, and clearer alignment between Human Resource workforce planning activities and the rest of the organisation.

We recognise that a fundamental part of workforce planning consists of operational activities by service areas to consider their immediate and future workforce needs and ensure that these are encompassed within the WMCA Business Planning and Budget Setting processes.

We acknowledge that Human Resource and Organisation Development have recently taken action to align workforce planning with the WMCA Business Planning and Budget Setting process as well as starting to develop mechanisms to support strategic workforce planning in accordance with best practice as defined by the Chartered Institute of Personnel and Development.

However, the above mechanisms and approach which were being developed at the time of review could be now translated into a clearly defined strategic and operational workforce planning

framework to support strategic level consideration of workforce planning implications for the achievement of the WMCA's strategic and organisational aims and objectives.

The findings from this report will be presented to the Audit, Risk and Assurance Committee.

Examples of good practice identified

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

Risk Management

- As the WMCA continues to develop as an organisation, workforce issues regarding resourcing, capacity and capability issues have been identified as a strategic risk and currently has been rated as an amber risk on the Strategic Risk Register. This risk has been reviewed by the Audit, Risk and Assurance Committee at its meeting on 12 November 2018.

Operational workforce planning arrangements

- Discussion with a sample of budget managers confirmed that suitable approaches were undertaken to consider and identify potential workforce requirements in the context of current and future service delivery requirements as well as external funding implications where delivery was dependent on securing future funding schemes. Approaches taken were consummate with their service area or service delivery model i.e. a well-established service area or a newer service area.
- Budget managers advised that workforce requirements were fed into budget setting processes and where in-year requirements occurred, the business case process was utilised, as well as their own strategic and operational management and reporting arrangements.
- Budget Managers within service areas looked to undertake a medium to longer term view wherever possible over and above an annual budget setting view.

Strategic workforce planning arrangements

- Development of more accurate and complete management information regarding the WMCA employee establishment including current and proposed vacancies, was being undertaken.
- Monthly monitoring dashboards were generated for presentation to senior management which included information regarding capacity i.e. establishment figures including current vacancies, turnover, lost hours and toil utilisation as indicators of current workforce issues.
- Greater alignment between workforce planning activities and the WMCA's Business Planning and Budget Setting processes was also being undertaken to ensure budget managers clearly considered workforce issues and reflected these within budget requirements.
- The Business Planning and Budget Guidance for 2019-2020 included some reference to the need to ensure employees are suitably equipped with the right skills to address achievement of strategic objectives.
- Service area workforce planning activities were supported by Human Resource Business Partners meeting with Directors and Heads of Service to review and manage resourcing requirements as well as address current establishment vacancies, feeding into the recently developed management information, establishment data and dashboards reported to senior management.

- Development was being undertaken of a workforce planning methodology with clear workflows that looked to mirror the professional best practice model for workforce planning recommended by the Chartered Institute of Personnel and Development. This was due for roll out to the Human Resource Business Partners to support their workforce planning role in liaison with service areas during the audit, as well as their role in capturing information to feed into management information.
- A Skills Mapping mechanism had been developed and piloted within the Human Resource and Organisation Team which could be extended to the wider organisation and could facilitate capture of key information and intelligence as part of a best practice workforce planning model.
- Consideration within the current workforce planning approach was given to alternatives means of meeting capacity and capabilities requirements including secondments, consultants, partnering support, agency engagements, talent management and succession planning. A report was recently presented to the Strategic Leadership Team to outline progress with development of new resourcing streams as well as measures to attract different groups of people as part of the WMCA's offer to the region.

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. Issues arising

Priority rating for issues identified:

Red

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

Amber

Action is required to avoid exposure to significant risks in achieving objectives

Green

Action is advised to enhance risk control or operational efficiency

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendation	Agreed action including responsibility and target date
2.1	<p>Workforce planning strategy and framework. We found that current strategic and organisational mechanisms that contribute to and underpin strategic workforce planning could be improved through greater formalisation within a clearly defined and documented strategic approach and operating framework, with clearer alignment and integration between strategic and operational service area workforce planning activity</p> <p>Consequently, formalisation of a clearer strategic approach and operational framework is required to help integrate and align the above arrangements, activities (operational and strategic) and best practice approach.</p>	<p>Current and developing strategic and organisational mechanisms that contribute to and underpin strategic workforce planning should be formalised within a clearly defined and documented strategic approach and supporting operating framework, with explicit alignment and integration between strategic and operational service area workforce planning activity.</p> <p>The above strategic approach and operating framework should look to clearly incorporate the mechanisms currently being developed (Workforce Planning Workflow Model and Skills Mapping mechanism and associated record keeping) that mirror professional best practice guidance.</p> <p>Once established, a communications strategy and programme should be developed to</p>	<p>As agreed we will undertake to develop a plan of action to address those areas highlighted by the Audit which need to be further embedded into the WMCA.</p> <p>The Head of Human Resource and Organisation Development leads the Workforce planning process for Human Resource and Organisation Development with support from Organisation Development and Engagement Manager, Management Information and Analytics Partner and the Human Resource Business Partners.</p> <p>Responsibility: Tracy Walters – Head of Human Resource and Organisation Development</p> <p>Target date: 30 June 2019</p>

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendation	Agreed action including responsibility and target date
	<p>In addition, communication to the wider organisation regarding how their role and responsibilities for workforce planning activities align with and inform strategic workforce planning through their budget setting and business planning and liaison with Human Resource Business Partners may support this further.</p> <p>Implication: Lack of strategic and operational framework may lead to weaknesses in overall workforce planning arrangements.</p>	<p>ensure the wider organisation understands their role within the workforce planning strategy and operating framework.</p> <p>Considering the above, current management information and reporting arrangements should be revisited to ensure align with the strategic approach and operating framework developed.</p>	

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 seen as 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.

Report distribution:

Julie Nugent – Director of Productivity and Skills
 Tracy Walters – Head of Human Resource and Organisation Development
 Rita Rais – Human Resource Manager
 Linda Horne – Head of Finance and Business Planning

Date Issued:

20 December 2018