



Audit, Risk & Assurance Committee

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Report title	Draft Internal Audit Plan 2019 – 2020
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive of the WMCA Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tim Martin Head of Governance, Clerk and Monitoring Officer Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report has been considered by	Leadership Team

Recommendation(s) for action or decision:

Audit, Risk and Assurance Committee is recommended to:

- (1) Review and note the current draft internal audit plan for 2019-2020.
- (2) Note that the final draft internal audit plan will be submitted for approval at the meeting of this Committee on 15 April 2019.

1. Purpose

- 1.1 The purpose of internal audit is to provide the WMCA with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.
- 1.2 The purpose of this document is to provide the WMCA with a draft risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.
- 1.3 In addition, all Directors of the WMCA have been consulted as part of development of the draft risk-based internal audit plan. The draft plan has also been presented to the WMCA Leadership Team for review prior to presentation to the Audit, Risk and Assurance Committee.
- 1.4 The draft plan has been developed to achieve a balance between setting out planned audit work and being flexible and responsive to changes in business needs, priorities and risks during the year. This recognises the environment within which the Combined Authority operates at this moment in time, due to the pace of change and high level of uncertainty affecting the risk environment. This approach should hopefully result in a more realistic and flexible plan.
- 1.5 As the draft internal audit plan does not take account of any potential implications from audits to be completed in quarter four of 2018-2019, formal approval of the final draft internal audit plan will be sought at the 15 April 2019 meeting of the Audit, Risk and Assurance Committee.

2. Background

- 2.1 Internal audit is a statutory requirement for all Local Authorities. The audit service provided to the WMCA is in accordance with the Local Government Act (1972), the Accounts and Audit Regulations Act and the Public Sector Internal Audit Standards.

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 None.

9. Appendices

9.1 None



West Midlands Combined Authority

Draft Internal Audit Plan – 2019-2020

Delivered by City of Wolverhampton Council - Audit Services

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A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

Identify the audit universe (i.e. a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the WMCA's ability to deliver its objectives. Then, identify if we can gain assurance that any of these risks are being managed adequately from other sources of assurance.
- Key Financial Systems - work undertaken in close liaison with the external auditors, to help inform and support the work they are required to undertake.
- Areas where we use auditor's knowledge, management requests and experience etc.



Step 2 – Ranking

Where appropriate score each auditable area as a high, medium or low assurance need using the CIPFA scoring methodology of materiality/business impact/audit experience/risk/ potential for fraud.



Step 3 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in the 2019-20 internal audit plan.

A glossary of terms

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Governance

The arrangements in place to ensure that the WMCA fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the WMCA's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded

- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the WMCA and the reporting of financial management
- the performance management of the WMCA and the reporting of performance management.

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide if they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

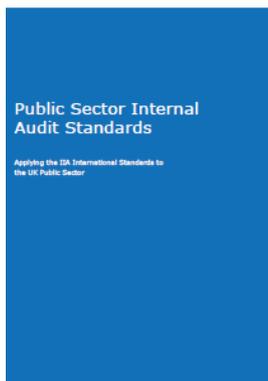
Audit, Risk and Assurance Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the WMCA's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards



The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards.

Introduction

- The purpose of internal audit is to provide the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives. To provide this opinion, we are required to review annually the risk management and governance processes within the WMCA.
- We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The WMCA has an Internal Audit Charter which was last reviewed and approved by the Audit, Risk and Assurance Committee in November 2017 and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the WMCA. This document sits alongside the charter, and helps determine how the internal audit service will be developed.
- The purpose of this document is to provide the WMCA with an internal audit plan, based upon an assessment of its assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.

Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

Assessing the effectiveness of the system of control

- To be adequate and effective, management should:
 - Establish and monitor the achievement of the WMCA's objectives and facilitate policy and decision making.
 - Identify, assess and manage the risks to achieving the WMCA's objectives.
 - Ensure the economical, effective and efficient use of resources.
 - Ensure compliance with established policies, procedures, laws and regulations.
 - Safeguard the WMCA's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
 - Ensure the integrity and reliability of information, accounts and data.
- These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control. The annual reviews of risk management and governance will cover the control environment and risk assessment elements, at a high level. The programme of work developed as the outcome of the assessment of assurance need exercise will cover the system level control activities.
- The plan contained within this report is our assessment of the audit work required to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

Assessment of assurance needs methodology

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the WMCA and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the WMCA's objectives.
- Activities that contribute significantly to the WMCA's internal control system, and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the WMCA over the reliability of its system of control in an effective and efficient manner.
- We have undertaken our assessment using the following process:
 - We identified the core objectives of the WMCA and, where available, the specific key risks associated with the achievement of those objectives.
 - We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.
 - We assigned assurance need values to the auditable themes and areas, based on the evidence we obtained
- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2019-2020 financial year and is detailed at the end of this document.

The assessment of assurance needs - identifying the WMCA's priorities and the associated risks

- The following are the WMCA's key priorities:
 - Drive economic growth
 - Create more efficient and faster transport
 - Provide better skills training
 - Build more and better homes
 - Deliver public sector reform
 - Develop sustainable cross sector partnerships
- Supported by the WMCA's values:
 - Be collaborative
 - Be innovative
 - Be driven
 - Be inclusive
- The WMCA has identified the following strategic risks as potentially impacting upon its ability to achieve its key priorities:
 - Financial assumptions for existing programmes
 - Delivery of programmes and devolution commitments
 - WMCA resilience
 - Governance arrangements
 - Leadership Team capacity
 - Stakeholder and political relations
 - Impact of external challenges and policy changes on WMCA plans

Identifying the “audit universe”

To undertake the assessment of assurance need, it is first necessary to define the audit universe for the WMCA. The audit universe describes all the systems, functions, operations and activities undertaken by the WMCA. Given that the key risk to the WMCA is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the WMCA, as identified above. These auditable areas include the control processes put in place to address the key risks.

In addition to this, there are also common systems and functions which are generic to all areas, along with several mandatory reviews. Where deemed appropriate they may also be included in the audit universe set out in detail at the end of this document.

Assessing the risk of auditable areas within the assurance framework

- Risk is defined as “The threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and execute its strategies.”

Source: Economist Intelligence Unit - Executive Briefing.

- There are several key factors for assessing the degree of assurance need within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:
 - Materiality
 - Business impact
 - Audit experience
 - Risk
 - Potential for fraud
- In this model, the assignment of the relative values is translated into an assessment of assurance need. These ratings used are high, medium or low to establish the frequency of coverage of internal audit.

Developing an internal audit plan

- The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the WMCA's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by such risk analysis.
- In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.
- It is recognised that a good internal audit plan should achieve a balance between setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. Traditionally Audit Services produced quite detailed internal audit annual plans identifying all the individual audits planned for the year, and this approach does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses it is likely that the risks and organisational priorities will change, resulting in changes to the plan. This is an issue within the Combined Authority environment at this moment in time, due to the pace of change and high level of uncertainty affecting the risk environment. Therefore, for this year we are keeping the audit plan relatively open. More detailed working plans will be maintained operationally within Audit Services. This approach should hopefully result in a more realistic and flexible plan.
- Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.
- The assessment of assurance need's purpose is to:
 - determine priorities and establish the most cost-effective means of achieving audit objectives;
 - assist in the direction and control of all audit work.
- This exercise builds on and supersedes previous internal audit plans.
- Included within the plan, in addition to audit days for field assignments are:

- a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
- an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various member meetings and Audit, Risk and Assurance Committee etc.

Considerations required of the Audit, Risk and Assurance Committee and the WMCA's Senior Management Team

- Are the objectives and key risks identified consistent with those recognised by the WMCA?
- Does the plan include all the themes which would be expected to be subject to internal audit?
- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?
- Does the plan cover the key risks as they are recognised?

How the internal audit service will be delivered

Staffing

The audit team follow the City of Wolverhampton Council's core behaviours. They are recruited, trained and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Resources required

It is estimated that approximately 185 internal audit days (including fraud, assurance and contingency work) will be required to deliver the audit plan.

Quality assurance

All audit work undertaken is subject to robust quality assurance procedures as required by the Public Sector Internal Audit Standard and reports are subject to thorough review by professionally qualified accountancy staff

The internal audit plan 2019-2020

Auditable area	Purpose	Rating
Cross Service		
Programme and Project Management Framework	A high-level review of the programme and project management framework in operation for the effective governance, risk management, project management and application of project controls for programmes and projects delivered by the WMCA.	High
ICT Strategy	A review to seek assurance that a clearly defined ICT strategic plan has been developed for the WMCA covering development, maintenance (including disaster recovery) and enhancement of information systems, and clearly aligns to the organisational aims and objectives, and enables efficient and effective achievement of wider business objectives.	High
Employee Performance Management	A review of performance management and support arrangements at strategic and operational levels for maintaining and improving employee performance ensuring alignment with the WMCA's objectives.	High
Investment Programme	The Investment Programme continues to underpin several of the WMCA's strategic risks and therefore merits annual audit coverage. Where appropriate we will take account of ongoing development and improvement work being undertaken by the WMCA as well as any sources of external and internal assurance to determine the focus of any in-year audit review.	High
Key Financial Systems Focused Reviews	Focused reviews of the WMCA's key financial systems to be determined in-year.	High

Auditable area	Purpose	Rating
Housing and Regeneration		
Single Commissioning Framework	A review of the systems and controls established for the Single Commissioning Framework to ensure that the Framework effectively supports achievement of the strategic objectives of the WMCA, Housing and Land Fund and the Housing Deal.	High
Housing and Regeneration Programme and Project management arrangements	A high-level review of the arrangements in place for overall programme governance, risk management and control including monitoring and reporting to inform achievement of the strategic objectives for the Housing and Regeneration Programme.	High
Commissioning and funding arrangements for externally led projects	A review of the systems and operational arrangements in place for the commissioning and funding of projects led by external organisations on behalf of the WMCA including project bid appraisal, prioritisation and approval, funding allocation, compliance with funding agreements, and subsequent monitoring and evaluation to ensure projects achieve strategic delivery.	High
Productivity and Skills		
Adult Education Budget	A review of the governance, management, funding and operational arrangements established and proposed for the effective management of devolved monies and achievement of relevant strategic objectives.	High
Construction and Digital Retraining Funds	A review of the strategy, governance, management, funding and operational arrangements for delivery of the strategic objectives and outcomes of the Construction and Digital Retraining scheme.	Medium
Employment Support Pilot	A review of the mechanisms established to deliver achievement of the strategic aims and objectives of the Pilot including performance monitoring and reporting.	Medium

Auditable area	Purpose	Rating
Public Service Reform		
West Midlands 5G Programme	A high-level review of governance, management and funding arrangements including the application of robust systems and controls, to ensure that they effectively support the WMCA's role and responsibilities regarding the Joint Venture and Delivery Entity and achievement of the WMCA's strategic objectives and benefits.	High
Homelessness Taskforce	A high-level review of the governance, risk, management and partnership arrangements established to contribute to and support effective delivery of the five key objectives that underline the Mayor's mainstream strategies for the WMCA through the work of the Homelessness Taskforce.	High
Strategy		
Local Industrial Strategy	A high-level review of the systems established to support programme delivery for the Local Industrial Strategy including governance, risk, performance management, monitoring and reporting arrangements.	High
Bid Management Framework	A high-level review of the bid management framework to ensure effective governance, risk and support arrangements are established at the outset for major bids to facilitate effective, efficient and consistent transition to service delivery.	High
West Midlands Fire Service	A high-level review of the governance, risk management, assurance and reporting arrangements established by the WMCA for the West Midlands Fire Service, post integration.	High

Auditable area	Purpose	Rating
Transport for West Midlands		
Third Generation Tram Procurement Project	A review of the governance, project management, risk management and control systems in operation for the Third Generation Tram Procurement Project.	High
West Midlands Rail	A review of the governance and relationship management in operation between the WMCA and the wholly owned West Midlands Rail company to ensure effective governance, risk management, monitoring and reporting arrangements have been established to provide assurance that the company continues to contribute to and supports the strategic aims of the WMCA.	High
Swift Managed Services Data and Payment Arrangements	A review of the financial and operational processes in operation for the delivery of the managed services to external operators regarding processing and payment of contract fees and ticketing income as well as supporting data processing arrangements.	Medium

The following reviews and associated services will be delivered corporately across the WMCA:

Auditable Area	Purpose
Consultancy and advice	<p>Special projects, advice and assistance, unplanned and ad-hoc work as and when requested. This could include coverage of the following areas:</p> <ul style="list-style-type: none"> • Mayoral Election 2020 – a review of the plans and preparations proposed for the forthcoming Mayoral election including reference to lessons learnt from the previous election. The outcome of this review to be reported to the Audit, Risk and Assurance Committee in quarter four of 2019-2020.
Counter Fraud	<p>Where required:</p> <ul style="list-style-type: none"> • the carrying out of investigations into areas of suspected or reported fraudulent activity across the WMCA. • Undertaking a series of pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity • The development of a fraud risk register • Organising raising fraud awareness seminars fraud surgeries. • Assisting in the Cabinet Offices NFI data matching exercise. • Representing WMCA at national and local fraud related events.
Recommendation follow up	<p>The follow up of key internal audit recommendations made in 2018/19 including continued oversight of limited opinion audit reports.</p>
Audit Management	<p>Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings. Preparation and presentation of papers for the Audit, Risk and Assurance Committee, and providing advice and training to committee members as and when required.</p>
Risk Management	<p>We will review the scoring and evidence based methodology that underpins the Strategic Risk Register.</p>