



Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	Internal Audit Annual Report 2018/19
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Report has been considered by	Leadership Team

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

(1) Note the contents of the Internal Audit Annual Report 2018-2019.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Audit, Risk and Assurance Committee with an annual internal audit opinion on the adequacy and effectiveness of the Combined Authority's governance, risk management and internal control processes.

2.0 Background

- 2.1 The Annual Internal Audit Report summarises the work completed by Internal Audit during 2018-2019. It also provides an annual audit opinion that 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, Internal Audit can provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications.

5.0 Legal implications

- 5.1 There are no implications.

6.0 Equalities implications

- 6.1 There are no implications.

7.0 Other implications

- 7.1 Not applicable.

8.0 Schedule of background papers

- 8.1 None.

9.0 Appendices

None



West Midlands Combined Authority

Internal Audit Annual Report – 2018-2019

Delivered by City of Wolverhampton Council - Audit Services

Introduction

Our internal audit work for the period from 1 April 2018 to 31 March 2019 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Combined Authority's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the opinion of the Chief Audit Executive and the Annual Governance Statement the Combined Authority is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Combined Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Combined Authority may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The work of the Combined Authority's Corporate Assurance Team
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third-party work designed to alert the Combined Authority to areas of improvement

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "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".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Overall Assurance

As the providers of internal audit to the Combined Authority, we are required to provide the Chief Executive and the Audit, Risk and Assurance Committee with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the Combined Authority's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2019.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Combined Authority.

Internal Audit Opinion

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

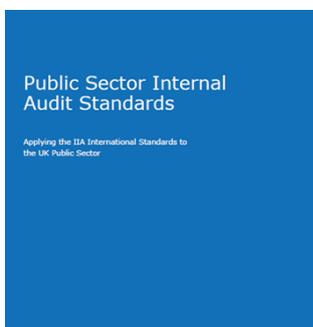
Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, we can provide **reasonable assurance** that the Combined Authority has adequate and effective governance, risk management and internal control processes.

However, we do note that there have been some delays in the implementation of previously agreed audit recommendations. Where this has occurred, they have been reported through the Audit, Risk and Assurance Committee.

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

- The WMCA continued to experience a changing environment in 2018 - 2019 with the further establishment of several new directorates, development of arrangements for the devolution of Adult Education Budget funding and award of further funding as part of the Housing Deal and the 5G programme.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified because of our audit work performed in year are included in a table at the end of this report.

Compliance with the Public Sector Internal Audit Standards



Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

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.

12 pieces of audit work have been completed so far in 2018-2019, 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
Substantial	9
Satisfactory	3
Limited	-

A summary for each completed audit review is detailed below.

Summary of audit reviews completed

The following internal audit reviews were completed during 2018-2019 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Health and Safety Arrangements	High	-	2	5	7	7	Satisfactory
Asset Management Arrangements	Medium	-	1	2	3	3	Satisfactory
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	High	-	1	-	1	1	Satisfactory
Corporate Business Continuity	High	-	-	3	3	3	Substantial
Budget Management Role and Responsibilities	Medium	-	-	3	3	3	Substantial
Data Insight Service	Medium	-	-	3	3	3	Substantial
Birmingham Eastside Metro Extension Project	High	In progress – verbal update will be provided.					

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Devolution Deal Objectives and Financial Assumptions, including Business Planning	High	In progress – verbal update will be provided.					
WMCA Governance Arrangements	High	In progress – verbal update will be provided.					
Midland Metro Operational Transfer	High	In progress – fieldwork commenced 8 April 2019.					

Summary of follow-up reviews completed

The following reviews were completed during 2018-2019 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Expenses, Gifts and Hospitality (2017-2018)	Medium	-	1	3	4	4	Recommendations implemented.
Data Security Arrangements (2017-2018)	High	1	3	-	4	4	Recommendations implemented.
Cyber Security Arrangements (2016-2017)	High	1	6	-	7	7	One red and four amber recommendations implemented. Progress noted for remaining two amber recommendations.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Human Resources Recruitment and Retention (2016-2017)	High	6	2	1	9	9	Recommendations implemented
Transport Capital Programme Prioritisation (2017-2018)	High	-	2	1	3	3	Two amber recommendations implemented. Progress noted for remaining green recommendation.
National Fraud Initiative (2017-2018)	High	-	2	4	6	6	Two green recommendations implemented. Progress noted regarding the remaining two green recommendations. Two amber recommendations not fully implemented.
Management of IR35 (2017-2018)	High	-	4	3	7	7	Progress noted for one amber and one green recommendations. Three amber and two green recommendations not fully implemented.
Establishment of the Mayoral Office (2017-2018)	High	1	6	0	7	7	Draft report issued – one red and two amber recommendations implemented. Progress noted for one amber to be implemented at next election. Three amber recommendations not fully implemented.

Summary of individual audits

No reviews were categorised as Limited Assurance.

The following reviews were categorised as either Satisfactory or Substantial Assurance.

Health and Safety Arrangements

The objective of our audit was to seek assurance that a robust health and safety management system was in operation for the West Midlands Combined Authority (WMCA) to effectively manage health and safety risks. We found that suitable operational Health and Safety management arrangements were evident, supported by regular reporting and an effective management system, specifically noting the continuing accreditation achieved by the WMCA Health and Safety Team.

At the time of review, Health and Safety arrangements were subject to change as the Team's remit was being developed to encompass and engage with the wider WMCA, albeit most risks would continue to remain within TfWM and therefore the focus of most health and safety activity. We therefore made recommendations to further support and build upon arrangements going forward, as well as develop greater visibility across the WMCA regarding the role of the Health and Safety Team as an organisational wide function.

We specifically noted that positioning of the proposed Safety, Health and Environment Strategic Committee and the existing Safety, Health and Environment Committee (constituted under relevant Regulations) and associated lines of accountability and reporting required clarity and in support of this, contracts of employment for Directors required reference to Health and Safety responsibilities for compliance with legislation and policy, and training as mandatory.

As reported to the January 2019 meeting of the Audit, Risk and Assurance Committee, actions identified within audit report are expected to be implemented by 31 March 2019. A follow-up review will be undertaken within the first quarter of 2019-2020 to confirm progress with implementation.

Asset Management Arrangements

We reviewed the asset management arrangements developed for the WMCA seeking assurance that current arrangements reflected best practice and supported achievement of the organisation's strategic objectives. Whilst we identified several areas of good practice, proposed developments were also reviewed to ensure would facilitate effective control within asset management arrangements. As part of ensuring implementation of these developments, a recommendation was made to ensure that a formal action plan was developed with supporting monitoring and reporting regarding progress.

Key Financial Systems

We reviewed the following key financial systems, with a particular focus on compliance with the Financial Regulations and Contract Procedure Rules. No significant issues of concern were raised:

- Accounts Receivable
- General ledger
- Payroll
- Budgetary Control
- Accounts Payable
- Treasury Management

Human Resources Workforce Planning

Our review sought assurance that appropriate arrangements were in place for effective workforce planning that supported and aligned with organisational strategy and business planning to ensure appropriate skills and capacity are developed to achieve organisational success in delivering services in the future. The WMCA had been through a fairly rapid recruitment process particularly at a senior level and to address vacancy management of approximately 158 full time equivalent posts.

Whilst action was being taken to develop workforce planning processes, we noted that current strategic and organisational mechanisms that contributed to and underpinned 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. The target implementation date for the one amber recommendation made was 30 June 2019. Consequently, a follow-up review will be undertaken within the second quarter of 2019-2020 to confirm progress with implementation.

Corporate Business Continuity

The objective of our audit was to seek assurance that adequate and effective business continuity arrangements had been established by the WMCA. The WMCA has established two key plans covering business continuity arrangements:

- The Corporate Business Continuity Plan covering all services operating from the WMCA premises at 16 Summer Lane and the building itself.
- The Transport for West Midlands (TfWM) Network Emergency Plan regarding major incidents.

This audit focused on a review of the Corporate Business Continuity Plan. A separate review will be undertaken of the TfWM Network Emergency Plan once updated to reference the Key Routes Network.

We found that a clear framework of controls for business continuity, resilience and incident management had been developed, supported by on-call arrangements, with the current form of arrangements had been developed during the period up to September 2018 and took account of the flood incident in March 2018, leading to a strengthening of on-call arrangements.

However, it is recognised that business continuity is an area that warrants ongoing review to address changes in risk profiles, and organisational and service delivery changes and is only truly tested in the event of incidents occurring and risks materialising that could affect the well-being and safety of employees and customers, and the WMCA's assets. Coupled with the WMCA continuing to experience fairly rapid strategic and organisational change, current business continuity arrangements will understandably be subject to further development and embedment.

We made recommendations to enhance current arrangements regarding more explicit reference to Policy within documentation and consistency in cross referencing and naming conventions within the Plan.

Budget Management Role and Responsibilities

The review recognised that as the WMCA is responsible for managing significant funding monies from various sources to improve the quality of life for everyone in the West Midlands, it is important that employees and seconded officers tasked with financial responsibilities to support achievement of strategic aims and implementation of major programmes and projects have sound financial understanding and training.

Consequently, the review focused on induction, training and support mechanisms in place to support budget managers appointed for newly established budget areas and to ensure that they were undertaking their role and associated responsibilities in an effective, compliant and accountable manner.

We found that surveyed Budget Managers were clear on their roles and responsibilities and clear guidance and policy had been provided regarding budget management responsibilities. To further enhance current arrangements, we recommended that budget management responsibilities be clearly included within job descriptions as applicable, current provision of training be made mandatory and feedback from surveyed Budget Managers be captured and addressed regarding additional areas of support.

Data Insight Service

The objective of the audit review was to seek assurance that in-house service delivery arrangements and contract management arrangements for externally procured functions, as part of the new operating model, were operating effectively and support achievement of transport strategic objectives through delivery of key strategic data and intelligence to stakeholders and partners.

The Transport for West Midlands Data Insight Service through provision of data collation, analysis and insight as well as complex transport and housing modelling helps to support future strategic infrastructure investment, business case development, compliance with external and internal assurance requirements as well as supporting compliance with the Localism Act 2011 Duty to Cooperate by Local Authorities. The Data Insight Service is largely funded by annual contributions from the seven constituent Local Authorities as well as contribution through resource allocated by Transport for West Midlands.

Previously operated by Birmingham City Council, the service transferred to the WMCA in 2017. In April 2018 the new Data Insight Service was launched. Consequently, at the time of review the Service was experiencing a period of significant transition from what was previously mainly data processing, to data insight through collection, collation and presentation of data, and strategic analysis and insight, and forecasting including modelling. Procurement activities were also in progress to further develop the capability and capacity of the Strategic Transport and Housing Modelling tool to ensure continue to be compliant and effective.

Recommendations were made to further enhance processes through development of a single strategic document outlining the aims and objectives of the service as well as services provided through collation the various existing documentation, documenting the contract management arrangements in operation and revisiting governance documentation.