



Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	Internal Audit Update
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Report to/be has been considered by	Not applicable

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the contents of the latest Internal Audit Update Report.
- (2) Note the amendments to the Internal Audit Plan 2019-2020.

1.0 Purpose

This report is PUBLIC [NOT PROTECTIVELY MARKED]

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. In addition, this report presents amendments to the Internal Audit Plan 2019-2020 as the result of a mid-year review.

2.0 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.

3.0 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

9.1 None

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West Midlands Combined Authority

Internal Audit Update Report Quarter 3
2019-2020

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 2019 - 2020 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.

2 Amendments to the 2019-2020 Internal Audit Plan

Based on a mid-year review, the following amendments have been made to the Internal Audit Plan 2019-2020:

ICT Strategy

The WMCA had commissioned an external review of its ICT arrangements which included coverage of an ICT Strategy within its scope. As the review had been completed and an action plan produced in 2019-2020, it is proposed that audit coverage is undertaken once the action plan is progressed or implemented, later in 2020-2021 to provide assurance on progress with development of an ICT Strategy.

Investment Programme

As ARAC will be aware, action is currently being taken to develop a revised assurance framework and supporting arrangements that will impact on the Investment Programme. It is anticipated that the outcomes of the 2017-2018 audit review of the Investment Programme will be taken account of as part of this development. We propose that audit coverage is undertaken in 2020-2021 to provide assurance regarding revised arrangements. ARAC continues to receive progress updates from the Director of Strategy in the meantime.

West Midlands Fire Service

As the West Midlands Fire Service was not incorporated into the WMCA, an audit of these arrangements is therefore no longer required.

3 Summary of progress – 2018-2019

The following internal audit review relating to 2018-2019 is currently in progress.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
WMCA Governance Arrangements	High	-	-	7	7	TBC	Substantial – draft issued

Summary of individual audits

WMCA Governance Arrangements (draft)

An audit of the West Midlands Combined Authority's (WMCA) governance arrangements was undertaken as part of the approved internal audit plan for 2018 – 2019. A draft report was issued on 28 October 2019 and was in the process of being discussed and agreed with the Head of Governance.

The core constitution of the WMCA stems from the Statutory Orders: West Midlands Combined Authority Order 2016, West Midlands Combined Authority (Election of Mayor) Order 2016 and The West Midlands Combined Authority (Functions and Amendments). The core governance functions established in accordance with these Orders are the WMCA Board, Audit, Risk and Assurance Committee (ARAC) and the Overview and Scrutiny Committee (OSC). The WMCA Constitution as well as supporting policies, procedures and guidance define the corporate governance arrangements and standards of behaviour and values expected for the Mayor, Members and Officers (and wider stakeholders) in order to meet its strategic objectives.

At the time of review, the WMCA was undertaking a fundamental review of its governance arrangements and the Constitution since it was established in 2016. Our audit involved a high-level audit review of current governance arrangements against core principles stated in the "Delivering Good Governance in Local Government (2016)" Framework issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) (Appendix 1).

We are pleased to report that based on a high-level review of the WMCA's core governance arrangements against Principles A and B and the suggested sources of evidence stated in the Framework, these provided an overall assurance opinion of substantial.

Several examples and evidence of good governance that demonstrate achievement of Principles A and B were observed. Based on testing of meeting records for the WMCA Board, ARAC and OSC and high-level review of supporting processes and systems, governance arrangements were clearly and suitably in operation.

To further enhance current governance arrangements, we have proposed seven recommendations rated as green for discussion with the Head of Governance as part of finalising the draft audit report. In accordance with standard audit practice regarding issuing of an audit report with a substantial assurance opinion, the draft report will be finalised with the Head of Governance and once issued as final a full copy will be provided to the Chair, with a further summary based on the final report to be presented to ARAC at its next committee meeting (January 2020).

4 Summary of progress: 2019-2020

The following internal audit reviews from the 2019-2020 Internal Audit Plan have been completed or are currently underway.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2019-2020 Internal Audit Reviews already reported							
Employment Support Pilot	Medium	-	-	1	1	1	Substantial – final report issued
Transport Operator Data and Payment Arrangements – Managed Service	Medium	-	-	-	-	-	Substantial – final report issued
Employee Performance Management	High	-	1	1	2	2	Satisfactory – final report issued
2019-2020 Internal Audit Reviews completed in Quarter 3							
Homelessness Taskforce	High	-	-	1	1	1	Substantial – final report issued

Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
2019-2020 Internal Audit Reviews in progress			
Programme and Project Management Framework	High	Fieldwork commenced	January 2020
Single Commissioning Framework	High	Fieldwork commenced	January 2020

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Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Construction Retraining Funds	Medium	Fieldwork commenced – to be completed November 2019 as agreed with Audit Sponsor	January 2020
Key Financial Systems Audits: Accounts Payable Accounts Receivable Budgetary Control General Ledger Payroll Treasury Management	High	Fieldwork commenced – to be completed October and November 2019	January 2020
Local Industrial Strategy	High	Scoping commenced – November 2019	January 2020
West Midlands Rail	High	Scoping commenced – November 2019	January 2020

Summary of individual audits

Homelessness Taskforce

The WMCA Homeless Taskforce was launched in May 2017, comprising of senior officers from each of the constituent members of the WMCA as well as representation from non-constituent members, other public bodies, voluntary sector agencies and the business community. In addition to the Taskforce, a Members' Advisory Group (MAG), consisting of elected Members from the seven constituent Local Authorities and representation from non-constituent members was also established, with the aim to provide political support, oversight and scrutiny regarding the work of the Taskforce.

The purpose of the Taskforce is to ensure that the WMCA and its partners draw on collective resources and partnerships, working as collaboratively as possible across the region, across sectors and disciplines to tackle systemic issues which contribute to homelessness and replace with approaches and processes which prevent and design out homelessness.

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Associated priorities defined by the Taskforce were included in the WMCA Annual Plan 2019-2020 as key deliverables and support delivery of five key objectives: accessible, affordable accommodation; tackling welfare related poverty; access to good employment; information advice and guidance, and integrated prevention.

Our review of governance and partnership arrangements as operated by WMCA Public Service Reform in support of the Taskforce identified no major issues. Suitable arrangements were in place to support the work of the Taskforce and monitor and review progress regards achievement of key priorities.

5 Forward plan for 2019-2020 scheduled audits

Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Cross Service			
ICT Strategy	High	Deferred to 2020-2021 post outcome of external ICT review	2020-2021
Investment Programme	High	Deferred to 2020-21 due to current developmental work being undertaken regarding the Investment Programme and Assurance Framework	2020-2021
Housing and Regeneration			
Housing and Regeneration Programme and Project management arrangements	High	December 2019	April 2020
Commissioning and funding arrangements for externally led projects	High	February 2020	April 2020
Productivity and Skills			
Adult Education Budget	High	January 2020	April 2020

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Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Public Service Reform			
West Midlands 5G Programme	High	December 2019	January 2020
Strategy			
Bid Management Framework	High	March 2020	June 2020
West Midlands Fire Service	High	No longer required	N/A
Transport for West Midlands			
Third Generation Tram Procurement Project	High	March 2020	June 2020

6 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. The following follow up reviews are scheduled for 2019-2020:

Auditable area	Level of assurance	Recommendations				Quarter (month)	ARAC Meeting (indicative)
		Red	Amber	Green	Total		
2017/18 Internal Audit Reviews							
National Fraud Initiative (2017-2018)	Satisfactory	-	2	4	6	Quarter 3 – December 2019	January 2020
Management of IR35 (2017-2018)	Satisfactory	-	4	3	7	Quarter 3 – December 2019	January 2020

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Auditable area	Level of assurance	Recommendations				Quarter (month)	ARAC Meeting (indicative)
		Red	Amber	Green	Total		
2018-2019 Internal Audit Reviews							
Corporate Business Continuity	Substantial	-	-	3	3	Quarter 3 – October 2019	January 2020
Asset Management Arrangements	Satisfactory	-	1	2	3	Quarter 3 – December 2019	January 2020
Data Insight Service	Substantial	-	-	3	3	Quarter 3 – November 2019	January 2020
Budget Management Roles and Responsibilities	Substantial	-	-	3	3	Quarter 1 – May 2020	June 2020

Appendix 1

Defining Good Governance

The International Framework: Good Governance in the Public Sector (2014) (International Framework) developed jointly by CIPFA and the Internal Federation of Accountants (IFAC) defines governance as comprising of “the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved”. It is further stated that such arrangements include but not limited to political, economic, social, environmental, administrative and legal arrangements.

Delivering Good Governance in Local Government (2016): Framework and Guidance Notes

The latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled “Delivering Good Governance in Local Government (2016)” (the Framework) provides a framework and supporting guidance based on a set of principles that should underpin good governance arrangements within Local Government organisations including Combined Authorities.

The overall aim of the Framework is to ensure that “resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities”.

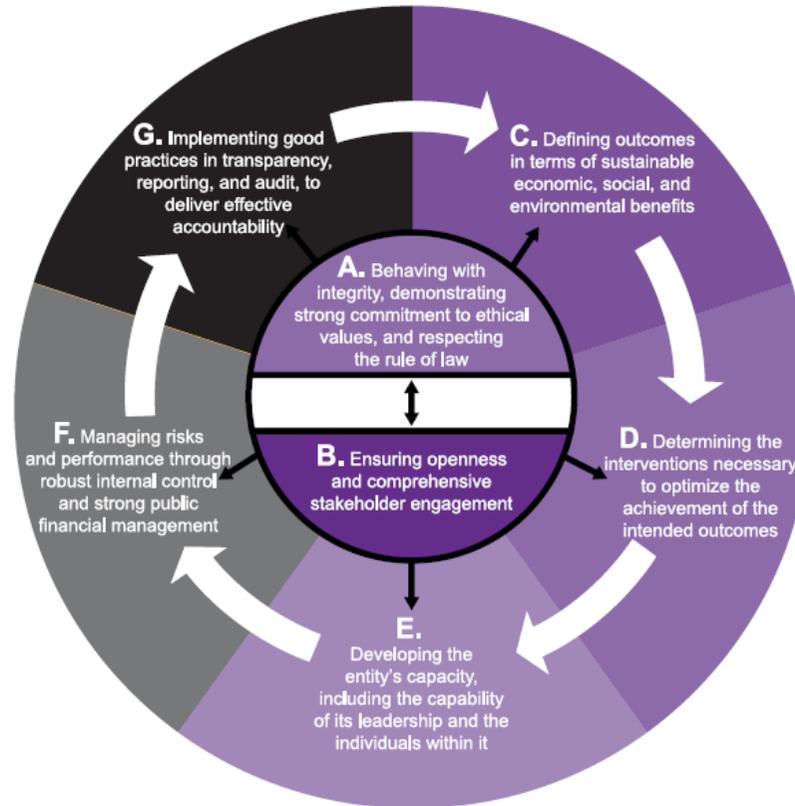
The main underpinning principle of the Framework is stated as continuing “to be that local government is developing and shaping its own approach to governance, taking account of the environment in which, it now operates” and that the Framework has been developed “to assist authorities individually in reviewing and accounting for their own unique approach to corporate governance”.

The Framework includes a set of core principles and sub principles (as stated in the International Framework: Good Governance in the Public Sector (2014) (CIPFA / IFAC)) that are expected to underpin the governance of each local government organisation, including the WMCA and provide a structure to help individual authorities with their approach to governance.

Defining the Principles of Good Governance

The diagram below as included in the Framework (originating from the International Framework) details the core principles good governance in the public sector:

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



This review focused on the governance arrangements within the WMCA that demonstrate good governance as defined by the frameworks and expected to be in place per the Core Principles: Principle A and Principle B. It should be noted that the International Framework states that Principles A and B “permeate implementation of principles C to G”.