



Audit, Risk & Assurance Committee

Date	4 March 2021
Report title	Internal Audit Plan 2021-2022
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Report to be/has been considered by	Leadership Team

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

- (1) Review and approve the Internal Audit Plan for 2021-2022.

1.0 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 initial assessment of assurance needs exercise was undertaken by the WMCA's Internal Audit Liaison Officer and then independently reviewed by Internal Audit. The assessment is then 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 As part of this exercise potential areas within the Audit Universe for consideration for review in the 2022/23 year were also identified, including areas such as Information Security, the agreement for Environmental Management Systems to be covered bi-annually (last reviewed in 2020/21) and an annual review of the Adult Education Budget. These will all be incorporated into the next assessment of assurance needs exercise.
- 1.4 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 was presented to the WMCA Leadership Team for review prior to presentation to the Audit, Risk and Assurance Committee.

2.0 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.

3.0 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



West Midlands Combined Authority

DRAFT Internal Audit Plan – 2021-2022

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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

Using an assessment of the assurance need identify each auditable area as a high, medium or low assurance need.



Step 3 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in the 2021-2022 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.

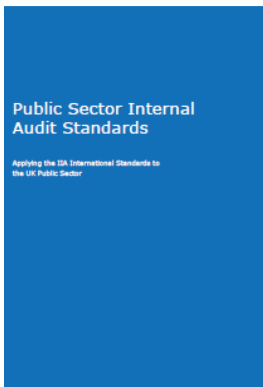
Audit, Risk and Assurance Committee

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 reviewed and approved by the Audit, Risk and Assurance Committee 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 initial assessment of assurance needs exercise was undertaken by the WMCA's Internal Audit Liaison Officer and then independently reviewed by Internal Audit. This exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will also 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 plan contained within this report reflects the 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.
- The assessment has been undertaken using the following process:
 - Identifying the core objectives of the WMCA and, where available, the specific key risks associated with the achievement of those objectives.
 - Then identifying auditable themes and areas that impact significantly on the achievement of the control objectives.
 - Assigning assurance need values to the auditable themes and areas, based on the evidence obtained.
- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2021-2022 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:
 - Transport
 - Housing and Land
 - Skills and Productivity
 - Economy and Innovation
 - Environment and Energy, HS2
 - Public Service Reform and Social Economy
 - Wellbeing
 - Culture and Digital
 - Inclusive Communities

- 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:
 - Covid19 effects and response to risk including long term economic and service delivery impact
 - Financial assumptions for Investment Programme
 - Impact of external challenges and policy changes on WMCA plans
 - Stakeholder and political relations
 - Data Protection and Information Security
 - Employee capacity and capability
 - Overall delivery of Devolution Objectives
 - Commerciality through use of company delivery models
 - Delivering the 2041 Carbon Budget reduction
 - Project and programme appraisal and assurance (Single Assurance Framework)

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, the audit universe has been identified 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.

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. This is of particular importance for 2021-2022 as WMCA will continue to respond to the effects of the Covid-19 pandemic and the impact of this on its business.
- 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 Personal Conversation 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 quality assurance procedures as required by the Public Sector Internal Audit Standard and reports are subject to review by professionally qualified accountancy staff.

The internal audit plan 2021-2022

Auditable area	Purpose	Rating	Quarter (Month)	ARAC Meeting (indicative)
Cross Organisation				
General Data Protection Regulations	An assessment of the current organisational GDPR arrangements to provide assurance these demonstrate the requirements as set out within GDPR legislation.	High	Quarter 1 (April 2021)	June 2021
Corporate Complaints Process	A review of the corporate complaints process to ensure operating effectively and in accordance with the Complaints Policy and relevant Local Government good practice. Consideration will also be given during the year as to how independent assurance on the effectiveness of the whistleblowing processes can be gained.	High	Quarter 2 (July 2021)	October 2021
Freedom of Information	A review of Freedom of Information processes to confirm it meets the requirements of the Freedom of Information Act 2000.	High	Quarter 2 (August 2021)	October 2021
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	Quarter 2 (September 2021)	January 2022
Key Financial Systems	To provide assurance that the key financial processes are operating, including: <ul style="list-style-type: none"> • Payroll • Accounts payable • Accounts receivable 	High	Quarter 3 (October 2021)	January 2022

Auditable area	Purpose	Rating	Quarter (Month)	ARAC Meeting (indicative)
	<ul style="list-style-type: none"> • General ledger • Budgetary control • Treasury Management 			
ICT Strategy	A review to seek assurance that a clearly defined and robust ICT Strategy has been developed and established.	High	Quarter 3 (December 2021)	April 2022
Investment Programme Monitoring and Evaluation Arrangements	A review of the monitoring and evaluation arrangements in operation for programmes and projects funded by the Investment Programme, and integration with wider monitoring and evaluation arrangements.	High	Quarter 4 (February 2022)	April 2022
Transport				
TfWM COVID 19 Response – Management and Decision-Making Arrangements	A high-level review of the management and decision-making arrangements operated by TfWM as part of its ongoing response to the Pandemic to ensure alignment with relevant Government guidance and requirements, as well as consistent cross directorate arrangements operated by core service areas.	High	Quarter 1 (May 2021)	September 2021
Longbridge Park and Ride Income Management and Charging Arrangements	A review of the proposed income management and charging arrangements developed for the Longbridge Park and Ride charging pilot.	Medium	Quarter 2 (September 2021)	January 2022
Dudley Interchange Project Management Arrangements	A review of the governance, project management, risk management and control systems in operation for the Dudley Interchange Project.	Medium	Quarter 3 (October 2021)	January 2022

Auditable area	Purpose	Rating	Quarter (Month)	ARAC Meeting (indicative)
Housing				
Single Commissioning Framework - Land Fund	A review of the systems and controls established for the administration of the Land Fund within the Single Commissioning Framework to ensure the fund effectively supports achievement of the strategic objectives.	High	Quarter 1 (June 2021)	September 2021
Affordable Housing Delivery Vehicle	A high-level review of the governance, risk management and partnership arrangements proposed within the pilot Affordable Housing Delivery Vehicle as a core contributor to the strategic objectives regarding housing and specifically for additional affordable housing.	High	Quarter 3 (November 2021)	January 2022
Productivity and Skills				
Adult Education Budget	The Adult Education Budget is a major funding mechanism underpinning the strategic aims and specifically the Regional Skills Plan. In-year review will be determined on the basis of any policy, management or delivery developments as well as the outcome of any internal and external reviews where undertaken.	High	Quarter 4 (March 2022)	June 2022
Environment and Energy				
WM2041 Delivery Programme (Environmental Recovery)	A high-level review of the proposed governance, monitoring and reporting arrangements developed in support of the WM2041 Delivery Programme (Environmental Recovery) including carbon reduction.	High	Quarter 2 (July 2021)	September 2021

Auditable area	Purpose	Rating	Quarter (Month)	ARAC Meeting (indicative)
Public Service Reform and Social Economy				
Inclusive Growth Investment Toolkit	A review of the governance, management, monitoring and reporting arrangements developed to support the effective implementation and utilisation of the Toolkit as part of evaluating the contribution of schemes to inclusive growth in the West Midlands.	High	Quarter 4 (January 2022)	April 2022

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

Auditable Area	Purpose
Consultancy and advice	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Counter Fraud	Where required the carrying out of investigations into areas of suspected or reported fraudulent activity across the WMCA.
Recommendation follow up	The follow up of key internal audit recommendations including continued oversight of limited opinion audit reports.
Audit Management	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.