



## Audit, Risk & Assurance Committee

<b>Date</b>	19 April 2021
<b>Report title</b>	Internal Audit Annual Report 2020-2021
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<b>Report to be/has been considered by</b>	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 2020-2021.

## **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 2020-2021. 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 2020-2021

Delivered by City of Wolverhampton Council - Audit Services

## *Introduction*

Our internal audit work for the period from 1 April 2020 to 31 March 2021 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 outcome of assurance activity as part of the Single Assurance Framework
- 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 considered:

- All audits undertaken for the year ended 31 March 2021.
- 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:

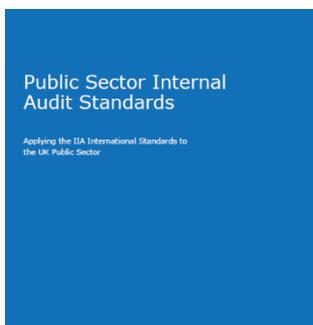
Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, we can provide **reasonable assurance** that the Combined Authority has adequate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

While the impact of Covid-19 did not adversely impact upon the delivery of the majority of the internal audit plan, a small number of amendments were made to incorporate the WMCA response to the pandemic. Also, during the year, all of the internal audit work was delivered remotely. However, overall this did not impact upon our ability to provide an Annual Audit Opinion.

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

- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance identified as a result 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.

13 pieces of audit work were completed in 2020-2021, 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	2019-2020	2020-2021
Substantial	9	9
Satisfactory	4	4
Limited	-	-

A summary for each completed audit review is detailed below.

### Summary of audit reviews completed

The following internal audit reviews were completed during 2019-2020 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	
<b>2020-2021 Internal Audit Reviews previously reported</b>							
Single Commissioning Framework	High	-	-	-	-	-	Substantial
Third Generation Trams Procurement Project Management	High	-	2	3	5	5	Satisfactory
Sprint Programme Management Arrangements	High	-	-	4	4	4	Substantial
Accounts Payable	High	-	2	-	2	2	Satisfactory
Accounts Receivable	High	-	-	-	-	-	Substantial
Budgetary Control	High	-	-	-	-	-	Substantial
General Ledger	High	-	-	2	-	-	Substantial
Payroll	High	-	-	-	-	-	Substantial
Treasury Management	High	-	1	2	3	3	Satisfactory
Human Resources Pre-employment checks	N/A	-	2	-	2	-	N/A
Employee Management (Covid-19 response)	High	-	-	-	-	-	Substantial
Environmental Management System	High	-	1	1	2	2	Satisfactory
Procurement (Covid-19 response)	High	-	-	1	1	1	Substantial

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Harvesttime Project Management Arrangements	High	-	-	5	5	5	Substantial
<b>2020-2021 Internal Audit Reviews in progress</b>							
Digital Retraining Fund	High	-	3	1	4	4	Draft report issued (satisfactory)
Commonwealth Games Strategic Transport Plan	High	Fieldwork in progress*					
Local Industrial and Economic Strategy	High	Fieldwork in progress					
Risk Management	High	Fieldwork in progress					
Adult Education Budget	High	Fieldwork in progress					

\*A joint working approach has been undertaken in liaison with the Commonwealth Games Organising Committee's Internal Auditors regarding the Integrated Transport Plan, working collectively where there is commonality within the audit scopes of both the Organising Committee and the WMCA. Reporting will be undertaken independently to each organisation's respective audit committee.

### *Summary of individual audits*

No reviews were categorised as Limited Assurance. The following reviews were categorised as either Satisfactory or Substantial Assurance. A summary of our observations has been included, or the full report appended where appropriate.

### **Single Commissioning Framework**

The WMCA Board approved the Framework in March 2019 to provide a single set of criteria and governance systems for the determination of funding applications made by various public and private sector organisations within the West Midlands Region for available devolved WMCA Housing, Land and Property Development funds. The Framework is managed by the Housing and Regeneration Directorate. This review focused on

the fund administration processes (processing grant applications and identifying loan opportunities) undertaken by West Midlands Development Capital (WMDC) Ltd (a limited company wholly owned by the WMCA) as commissioned fund manager for specific funds that fall within the Framework. We were pleased to report that no major issues were identified regarding the administration processes or the associated governance, assurance and approval arrangements operated.

### **Third Generation Trams Procurement Project Management**

Our review focused on the project management arrangements in operation for the delivery of the Third Generation (3G) Tram Procurement project. The project involving the delivery of 21 new Trams supports the continued expansion of the Metro Network with new proposed routes providing greater connectivity across the region and surrounding areas. Whilst we found core project management arrangements were in operation, as further improvements we made two amber rated recommendations regarding project assurance arrangements and change control processes. All of our recommendations were accepted.

### **Sprint Programme Management Arrangements**

Sprint is a Bus Rapid Transit (BRT) service that is expected to deliver predictable journey times and high frequency, dependable timetables. The WMCA Sprint Programme (the Programme) consists of two phases: Phase One - Pre-Commonwealth Games Delivery and Phase Two - Post Commonwealth Games Delivery. Our review focused on current and proposed Programme management arrangements and alignment of the current Phase One projects (A34 and A45) with programme level arrangements.

We were pleased to report that we found no major issues and identified several areas of good practice on review of the core programme management and governance arrangements currently operated as well as proposed developments, prior to progression to full delivery.

### **Key Financial Systems Audits**

Our review sought assurance on the core controls in operation for the Key Financial Systems. We were pleased to report that no major issues were identified, and an overall opinion of substantial was given for the following systems:

- Accounts Receivable
- General Ledger
- Budgetary Control
- Payroll

We gave satisfactory assurance in the following areas:

- Accounts Payable
- Treasury Management

While we found for both Accounts Payable and Treasury Management that the majority of core controls were operating effectively with no major issues, for Accounts Payable we made two amber rated recommendations regarding supplier bank detail changes and maintaining an audit trail for approval of payment runs within current remote working arrangements. For Treasury Management we made one amber rated recommendation regarding evidencing approvals and separation of duties within remote working arrangements and staffing levels. All of our recommendations have been accepted.

### **Human Resources Pre-employment checks**

Part of the testing undertaken for the payroll key financial system audit in 2020 – 2021 included testing of the pre-employment checks undertaken by the Human Resource and Organisational Development Team. We identified two issues regarding pre-employment relating to retention of documentary evidence of right to work checks and verification of role related qualifications. Suitable and prompt action was agreed by the Team to address these issues.

### **Employee Management (Covid-19 response)**

Our review focused on the arrangements for employee management in response to the implications of the Covid-19 pandemic. We were pleased to report that we found no major issues, and found several areas of good practice within the ongoing response to Covid-19 which facilitated the following:

- Protecting the organisation's employees
- Communicating effectively in uncertainty
- Maintaining the continuity of work
- Preparing for recovery

Employee management is seen as a core element of the WMCA overall response, led by Human Resources and Organisational Development in collaboration with, and as a key member of the Covid-19 Tactical Group established to manage the overall organisational response. We also found that the approach and response taken aligned with guidance and best practice advice.

The response also demonstrated a wider consideration of employee health and wellbeing alongside core employee management policy and procedure. This was further supported by the establishment of the Wellbeing Strategy 2020-2022 which looks to address the current situation as

well as being forward looking regarding consideration of future working arrangements. As this subject has been of interest to members at recent meetings, a copy of the full audit report has also been appended to this progress report for information purposes.

### **Environmental Management System (EMS)**

The WMCA operates an Environmental Management System which provided a framework through which the organisation's environmental performance can be controlled, monitored, and improved. WMCA has chosen accreditation of its EMS through ISO 14001, an internationally recognised standard, to demonstrate compliance of its activities and planned programmes to reduce the organisation's environmental impact.

As required under the external accreditation, we reviewed the Environmental Management System against the core areas within the ISO: context of the organisation, leadership, planning, support, operation and performance evaluation and improvement. Collectively the core areas included 186 clauses against which the assessment was undertaken.

Based on our assessment against the ISO14001:2015 internal audit checklist, we found that the majority of clauses and therefore core areas were suitably addressed by the EMS. We made one amber rated recommendation where improvement could be made to ensure an annual programme of site inspections is undertaken going forward. Several factors impacted upon implementation of the programme, most significant being the Covid-19 pandemic. However, action was being taken to commence remote inspections instead.

### **Procurement and Supplier Relief (Covid-19 Response)**

Our review focused on the arrangements for procurement and supplier relief in response to the implications of the Covid-19 pandemic and alignment with the Procurement Practice Notes issued by the Cabinet Office to contracting authorities. We found no major issues, finding several areas of good practice and alignment with the procurement, contract and supplier support arrangements advised within the Cabinet Office Procurement Policy Notes (PPNs).

Procurement and contract review, additional assurance arrangements prior to undertaking new procurement activity and supply chain risk management and relief measures (including immediate payment terms and payment on profile for critical services) were suitably addressed as part of the ongoing response.

### **Harvesttime Project Management Arrangements (Housing and Regeneration)**

The Harvesttime project is based on derelict brownfield land at the former site of the Harvesttime Bakery which closed in 2012 and consists of the construction of a mix of residential units, private rental, and affordable housing. Following approval by the investment board, £1.5m of grant funding was made available for the project. The review was undertaken prior to project closure planned for March 2021.

We made a number of green rated enhancements and lessons learnt for future projects covering maintaining suitably structured project filing systems for key documents, utilising a standardised approach to project reporting and format, maintaining project registers and ensuring stakeholder needs analysed and documented more explicitly and planning for project closure. All our recommendations were accepted.

*Summary of follow-up reviews completed*

The following reviews were completed during 2019-2020 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	Total Number of Original Recommendations			Implemented			Outstanding		
	Red	Amber	Green	Red	Amber	Green	Red	Amber	Green
Employee Support Pilot (Productivity and Skills)	-	-	1	-	-	1	-	-	-
Construction Retraining Fund	-	-	1	-	-	1	-	-	-