

Audit, Risk & Assurance Committee

Date	12 April 2022
Report title	Internal Audit Annual Report 2021-2022
Accountable Chief Executive	Laura Shoaf, Chief Executive
Accountable Employee	Satish Mistry, Interim Director, Law and Governance
Report to be/has been considered by	N/A

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

1. Note the contents of the Internal Audit Annual Report 2021-2022.

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 2021-2022. 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 2021-2022

Delivered by City of Wolverhampton Council - Audit Services

Introduction

Our internal audit work for the period from 1 April 2021 to 31 March 2022 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 2022.
- 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:

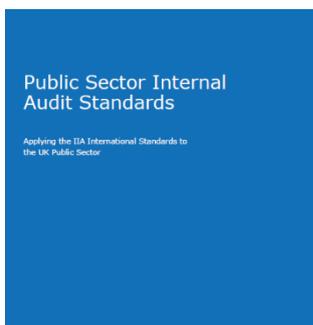
Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, we can provide **reasonable assurance** that the Combined Authority has adequate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

While a small number of 2021-2022 audit reviews had yet to be completed, and therefore did not feed into this opinion, a number of audit reviews were carried forward from 2020-2021 (as a result of the Covid-19 pandemic) and subsequently completed and reported upon in 2021-2022. Therefore overall, we believe that sufficient audit coverage has been delivered and reported upon during the year, in order for us to provide the above 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.

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

16 pieces of audit work were completed in 2021-2022 at the time this report was produced, 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	2020-2021	2021-2022
Substantial	9	9
Satisfactory	4	6
Limited	-	1
No Assurance	-	-

A summary for each completed audit review is detailed below.

Summary of audit reviews completed

The following internal audit reviews were completed during 2012-2022 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	
Internal Audit Reviews previously reported							
Commonwealth Games Transport Plan – TfWM Governance and Management Arrangements	High	-	-	3	3	3	Substantial
Risk Management	High	-	1	3	4	4	Satisfactory
Digital Retraining Fund	High	-	3	1	4	4	Satisfactory
Adult Education Budget	High	-	3	2	5	5	Satisfactory
General Data Protection Regulations	High	-	1	9	10	10	Satisfactory
Corporate Complaints Process	High	-	3	4	7	7	Satisfactory
Freedom of Information	High	-	-	5	5	5	Substantial
Single Commissioning Framework - Land Fund	High	-	-	2	2	2	Substantial
TfWM COVID 19 Response – Management and Decision-Making Arrangements	High	-	-	2	2	2	Substantial
Internal Audit Reviews completed							
Accounts Payable*	High	-	5	-	5	5	Satisfactory
Accounts Receivable*	High	-	-	1	1	1	Substantial

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Budgetary Control*	High	-	-	-	-	-	Substantial
General Ledger*	High	-	-	-	-	-	Substantial
Payroll*	High	-	-	1	1	1	Substantial
Treasury Management*	High	-	-	2	2	2	Substantial
Longbridge Park and Ride Income Management and Charging Arrangements*	Medium	1	2	-	3	3	Limited
2021-2022 Internal Audit Reviews in progress							
ICT Strategy	High	-	1	3	4	4	Final draft report issued (Satisfactory)
Dudley Interchange	Medium	Review completed and draft report to be issued					
WM2041 Delivery Programme (Environmental Recovery)	High	Fieldwork in progress					
Investment Programme Monitoring and Evaluation Arrangements	High	Fieldwork in progress					
Inclusive Growth Investment Toolkit	High	Fieldwork in progress					
Affordable Housing Delivery Vehicle	High	Fieldwork in progress					
Adult Education Budget – Community Learning Fund Procurement	High	Deferred to May 2022 (pending completion of procurement exercise)					

*Reports appended below.

Summary of individual audits

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.

Commonwealth Games Transport Plan – TfWM Governance and Management Arrangements

Our review focused on the governance and management arrangements established by Transport for West Midlands (TfWM) within the Integrated Transport Programme (ITP) for delivery of transport services for the Games, managing existing demand and minimising the impact of any associated disruption.

Under the Birmingham 2022 Collaboration and Funding Agreement established between the Games Organising Committee and TfWM, TfWM undertakes several complex roles and responsibilities, key cross partner working and collaboration, alongside the statutory duty to deliver the Games Transport Plan.

We are pleased to report that we found no major issues and identified several areas of good practice regarding the governance and management arrangements operated by TfWM, as well as alignment with the requirements of the above Agreement.

Risk Management

We reviewed the risk management arrangements and controls in operation for the WMCA seeking assurance regarding the risk management framework and strategy, role of the Audit, Risk and Assurance Committee, reporting and escalation arrangements and Directorate level risk management. We found several areas of good practice within these areas.

To further support the above, one amber rated recommendation was made regarding establishment of Directorate level risk management arrangements and supporting risk management procedures with a clear process of escalation of risks to the Strategic Risk Register. Three green rated recommendations were made covering assigning responsibilities for mitigating actions, provision of risk management training to the Audit, Risk and Assurance Committee at the changeover in Chair, and establishment of monitoring at directorate level regards embedment of risk management.

Digital Retraining Fund

The West Midlands Combined Authority (WMCA) secured initial funding of £5m and top up funding of £1.5m from the Department of Education's (DfE) National Retraining Project to deliver the Digital Retraining Fund project. The three-year Project commenced in September 2019. Good practice was found regarding compliance and performance monitoring arrangements and reporting. We made three amber rated recommendations where improvements could be made. Improvements in the retention of signed versions of grant agreements to demonstrate adherence to Public Procurement Regulations as well as ensuring grant agreements were accurate and complete. Clearer reference to the established compliance and performance management framework within grant agreements as well as greater evidencing of compliance / performance reviews undertaken was required.

Adult Education Budget

We reviewed the governance and management arrangements established for the administration and delivery of the Adult Education Budget. Responsibility for the Adult Education Budget and how it is delivered within the West Midlands region was devolved from the Department for Education (DfE) to the WMCA in August 2019. The academic year 2019 / 2020 was the first year of funding.

The aim of the Budget is to engage adults and employers in providing the skills and learning required for the region to equip adults for work, upskill current employees and facilitate specialist training whilst aligning funding with priority individuals, communities, and sectors. The total funding allocation to Colleges, Local Authorities, and Independent Training Providers for the funding year 2020/ 021 was £126,739,021. Colleges were allocated £76,541,502, Local Authorities £21,811,751 and ITPs £28,385,768.

We found that suitable arrangements had been established covering governance, performance management, risk management including financial due diligence checks and financial health monitoring that mirrored that of the Education and Skills Funding Agency. Audit and assurance arrangements had been established of the undertaking of provider compliance / funding rules audits. Suitable processes had also been established for learner data collection and validation as the basis for performance monitoring and payment. Provider payment arrangements for the validation, approval, and processing of payments due to Colleges, Local Authorities and Independent Training providers were found to be suitably robust.

Whilst the overall compliance, performance and payment arrangements were found to be well established, we made three amber rated recommendations: retention of signed and dated contracts and grant agreements as demonstration of compliance with Public Procurement Regulations, maintaining clear documentary evidence of delegated Section 151 Officer approved of provider payments during the Accounts Payable process for making payments, and documentation of an Adult Education Budget Local Assurance Framework in line with the requirements of the National Local Growth Assurance Framework.

Two recommendations rated green were also made to further enhance provider level risk assessment arrangements and governance arrangements.

General Data Protection Regulations

We reviewed the progress made by the WMCA with fully embedding the regulations introduced in May 2018 utilising the Information Commissioner Office's checklist guidance to confirm compliance. We found that the majority of compliance areas had been met by the WMCA.

We made one amber rated recommendation regarding achievement of Cyber Essentials accreditation for the WMCA's Information Technology systems which had expired in 2020. At the time of review the WMCA was actively working toward to preparing a submission for review prior to accreditation being granted. We made nine green rated recommendations to further enhance embedment of the regulations covering areas such as maintaining a central record and periodic review of individual Information Asset Registers, data accuracy spot checks, communication arrangements, policy review, automated protective marking of emails, and breach notification protocol.

Corporate Complaints Process

A review was undertaken of the corporate complaints process to seek assurance regarding compliance with the WCMA's Complaints Handling Procedure as well as adherence to relevant Local Government good practice. The management of formal complaints falls under the Customer Experience Team. For the period April to June 2021, five Stage 1 complaints had been received and three of these had progressed to Stage 2 of the corporate complaints process.

Several areas of good practice were identified including establishment of a documented procedure and policy (Complaints and Vexatious Complainants), a defined process for the handling of

complaints and by whom within the organisation and monitoring of progress. Review of sample complaints confirmed compliance as well as meeting response targets for Stage 1 complaints.

To further support the above, we made three amber rated recommendations to improve accessibility and communication regards making corporate complaints, maintain detailed documentation of investigations undertaken and resultant outcomes and actions in all cases, and establish a formal recording and monitoring process for addressing lessons learnt arising from individual complaints to ensure any required service improvements are implemented.

Freedom of Information

Our review focused on the arrangements in operation for administration of Freedom of Information Act (FOI) and Environmental Information requests. The audit was based on assessment of current arrangements against the Information Commission Office (ICO) FOI self-appraisal checklist. The FOI Act 2000 provides public access to any recorded information held by public authorities in England, Wales, and Northern Ireland.

We found no major issues, making green rated recommendations as enhancements to existing arrangements covering documentation of process guidance for internal employees, updating of information on WMCA website and including additional details within FOI request records. All recommendations were agreed for implementation by 30 November 2021.

Single Commissioning Framework - Land Fund

The Single Commissioning Framework (SCF) was introduced in April 2019 to provide a consistent end to end process for managing projects seeking investment from Devolved Housing and Land Funds. Our review focused on the governance, risk, and management arrangements in operation for the administration of the Land Fund within the SCF and its applications to funded projects. We found no major issues, making two green recommendations as enhancements regarding completion of project monitoring reports and development of route maps detailing timelines for decisions and processes to be undertaken.

TfWM COVID 19 Response – Management and Decision-Making Arrangements

Our review sought assurance on the effectiveness of the management and decision-making arrangements operated by TfWM as part of the response to the ongoing Pandemic. We are pleased to report an overall assurance opinion of substantial.

Several areas of good practice were identified through clear demonstration of effective arrangements supported by multi agency and organisational engagement within the TfWM led Transport Cell (established within the framework of the Local Resilience Forum consisting of category one and two responders and including representation from TfWM). These arrangements operated in alignment with existing TfWM governance and management arrangements.

The above was further supported by use of timely data and management information, review of risk and mitigating actions and record keeping regarding decisions and actions as well as review of decision outcomes and impacts whilst also seeking feedback from customers and stakeholders to inform ongoing management and decision-making arrangements as the response to and implications of the Pandemic continued.

We made two green recommendations as further enhancements to existing practices for logging decisions and recording presentation of risk registers within governance arrangements.

Key Financial Systems Audits

Our review sought assurance on the core controls in operation for the Key Financial Systems. We are 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.
- Treasury Management

For the above Key Financial Systems, we made four green recommendations: review of current debts within Accounts Receivable, recording of dates of third-party payrolls within emails within Payroll and for Treasury Management, specific minuting approval of the Treasury Management Policy Statement and recording confirmation of independent review of monthly reconciliations.

We gave an assurance opinion of satisfactory for the Accounts Payable Key Financial System. We found that established controls for standard processing of transactions within Business World regarding ordering, goods receipting, and invoice processing were robust and consistently applied when making WMCA creditor payments, which presented core Accounts Payable activity.

However, we made five amber rated recommendations regarding recording of Unique Tax References, processing and approval of payments made via by CHAPS (same day / telegraphic transfer) and Cheque / BACs requests, creating supplier records and amending supplier bank details, checking payment runs and monitoring exception reports to prevent and detect duplicate payments, and maintaining an audit trail within Teams for processing and approval of transactions.

Summary of follow-up reviews completed

Through an ongoing cycle of reviews, 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.

As part of a new working arrangement, the WMCA Internal Audit Liaison Officer will be undertaking the initial preparatory work for each follow-up review, obtaining progress updates, and supporting evidence as and when agreed implementation dates arrive. This is in support also of the WMCA management monitoring arrangements of progress with implementation.

Internal Audit upon referral from the Internal Audit Liaison Officer, will then independently review the progress and supporting evidence, and report accordingly on the progress made with implementation of recommendations.

Ultimately, Internal Audit will retain the responsibility for determining if sufficient action has been taken. Follow up action of the following reviews forms part of this ongoing cycle, details of reviews completed or commenced by Internal Audit, or progress monitoring updates collated by the Internal Audit Liaison Officer are provided below.

Auditable area	Total Number of Original Recommendations			Implemented			Outstanding		
	Red	Amber	Green	Red	Amber	Green	Red	Amber	Green
Completed (Internal Audit) – previously reported									
Devolution Deal Objectives and Financial Assumptions, including Business Planning	-	2	-	-	-	-	-	2	-

Progress Monitoring Update (Internal Audit Liaison Officer)

Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Progressed*
				Red	Amber	Green	
Midland Metro Limited Operational Transfer	Satisfactory	19/08/19	31/12/19	-	2	-	2
West Midlands Rail Limited - WMCA Governance and Management Arrangements	Satisfactory	05/05/20	30/06/20	-	3	-	3
Programme and Project Management Framework	Satisfactory	26/05/20	01/09/21	-	3	-	3
WMCA Accessible Transport Services	N/A	06/07/20	31/12/20	-	4	2	#Change in responsible officers
Sprint Programme Management Arrangements	Substantial	30/09/20	31/12/20	-	-	4	4
Third Generation Tram Procurement Project Management	Satisfactory	16/10/20	31/12/20	-	2	3	5
Human Resources Pre-employment checks	N/A	27/11/20	31/12/20	-	2	-	1
Environmental Management System	Satisfactory	06/01/21	30/06/21	-	1	1	1
Procurement (Covid-19 Response)	Substantial	24/02/21	Immediate	-	-	1	1
Harvesttime Project Management Arrangements	Substantial	22/03/21	30/06/21	-	-	5	5

Progress Monitoring Update (Internal Audit Liaison Officer)							
Auditable area	Overall	Report Issue	Action Date	Agreed Actions			Number Progressed*
Commonwealth Games Transport Plan - TfWM Governance and Management Arrangements	Substantial	09/06/21	28/05/21	-	-	3	3
Risk Management	Satisfactory	10/06/21	21/07/22	-	1	3	3
Digital Retraining Fund	Satisfactory	10/06/21	01/11/21	-	3	1	4
WMCA Devolved Adult Education Budget	Satisfactory	07/09/21	30/09/22	-	3	2	4
General Data Protection Regulations	Satisfactory	16/09/21	31/01/22	-	1	9	4
Corporate Complaints Process (appended)	Satisfactory	12/10/21	01/01/22	-	3	4	5
Freedom of Information	Substantial	19/10/21	30/11/21	-	-	5	5
Single Commissioning Framework - Land Fund	Substantial	05/11/21	31/12/21	-	-	2	2
TfWM COVID 19 Response – Management and Decision-Making Arrangements	Substantial	07/12/21	31/03/22	-	-	2	-

* Stated number of actions progressed reflects the opinion of the auditee as of February 2022, and where appropriate an independent sense check by Audit will be undertaken in key areas to confirm status of delivery.

Review of action owners and status required due to changes in responsible officers.



West Midlands Combined Authority

Internal Audit Report: WMCA Key Financial Systems 2021 - 2022

Report Date: 07 March 2022

Report Distribution: Linda Horne – Finance Director
Carl Pearson – Head of Financial Planning and Deputy S151
Louise Cowen - Financial Controller
William Godden – AP/AP Manager
Anne Bull – Chief Accountant
Kate Ketteringham – Group Payroll and Pensions Manager
Mark Finnigan - Lead Treasury Accountant

1. Executive summary

Introduction

An audit of the West Midlands Combined Authority's (WMCA) key financial systems was undertaken as part of the approved internal audit plan for 2021 - 2022.

All the WMCA's key financial systems are considered high risk as they have a material effect on the annual accounts. Therefore, these audit reviews are undertaken on an annual basis. The controls tested as part of this review are deemed as core controls.

The following key financial systems were reviewed covering the six-month period April to September 2021:

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

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objective, and the potential risks to the achievement of the objectives the adequate controls are in place for the key financial systems and are operated in accordance with the Combined Authority's Financial Regulations and Contract Procedure Rules.

Scope

Accounts Payable

- Adequate controls, including a separation of duties are in place for approval of purchase requisitions / orders and invoices in accordance with the scheme of delegation.
- Adequate controls ensure 3-way matching of invoices to goods receipting and purchase orders.
- Payments have been matched to the correct invoice and allocated to the correct creditor account.
- Payment runs are appropriately processed and authorised (including BACS processing and cheque control).
- Adequate controls are in place in respect of creating supplier records and amending supplier details including bank details.
- Adequate controls are in place for the approval and processing of AP spreadsheet uploads.

Accounts Receivable

- Controls are in place to ensure debtor invoices and credit notes are processed accurately, completely, and only once.
- Receipts are properly identified, recorded, and deposited intact.
- Adequate procedures are in place with regards to aged debts and write-offs.
- Adequate procedures should be in place for setting up new and amending customer details.

Scope

Budgetary Control

- The budget is prepared in accordance with standard guidance and the budget timetable.
- The budget is approved in accordance with delegated responsibilities in the Constitution and the budget in Business World does correspond to the approved budget.
- Budget monitoring reports presented to Committee members are accurate and timely and are in accordance with the Constitution.
- Cost centres are assigned to budget managers.
- Over/under spends are highlighted and corrective action is taken.
- Virements are undertaken and monitored in accordance with the Constitution.
- Final accounts are produced in accordance with prescribed timescales.

General Ledger

- General ledger is regularly reconciled to feeder systems.
- Control and suspense accounts are regularly reconciled.
- Bank accounts are regularly reconciled to the general ledger.
- System error codes are regularly cleared.
- Changes to cost centres / account codes are appropriately authorised.
- Opening balances are reviewed and are in accordance with closing balances from the previous year.
- Journals are authorised in accordance with the scheme of delegation and access controls and are processed on a timely basis.

Payroll

- Starters / leavers / payroll amendments are authorised.
- Payroll runs are authorised and reconciled.
- Adequate segregation of duties.
- Adequate management information.
- Payments to third parties are adequately controlled / managed.

Treasury Management

- Treasury management activities are undertaken in accordance with the Constitution and Code of Practice.
- Treasury management activities are accurately and completely recorded, and appropriately authorised.
- Risks associated with treasury management activities are effectively controlled.
- Cash and investments are effectively managed.
- Transactions are fully accounting for.
- Control accounts are reconciled.
- Appropriate and regular monitoring and reporting arrangements are in place and operated.

Limitations to the scope of our audit

This audit was limited to current year systems and transaction testing.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the systems reviewed provide the following levels of assurance as part of the process to mitigate risks to an acceptable level:

Key Financial System	Overall Opinion
Accounts Payable	Satisfactory
Accounts Receivable	Substantial
Budgetary Control	Substantial
General Ledger	Substantial
Payroll	Substantial
Treasury Management	Substantial

Key:

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We have identified five issues classified as **amber** and four **green** issues. These are further detailed in section two of this report, as well as examples of good practice identified for all audits undertaken.

A summary of this report will be presented to the Audit, Risk and Assurance Committee.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Detailed Findings

Accounts Payable 2021 – 2022

Key issues identified

We found that established controls for standard processing of transactions within Business World regarding ordering, goods receipting, and invoice processing were robust and consistently applied when making WMCA creditor payments, presented core Accounts Payable activity.

We have identified five **amber** issues where improvements could be made, arising from the following:

- Unique Tax References where VAT numbers were not always obtained prior to payment.
- Payments made via CHAPS (same day / telegraphic transfer) and Cheque / BACs requisition forms had not always been fully completed and authorised prior to being processed for payment.
- Supplier record creation and amendments involving bank details changes had not always been suitably evidenced as verified or validated prior to actioning.
- Duplicate payment checks could be strengthened to prevent or detect these occurring, and there was no monitoring or exception reporting arrangements in place.
- Use of Teams messages as the audit trail for recording processing and approvals of transactions was not always clearly referenced.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- Sample testing identified that ordering, goods receipting, and invoice processing were suitably undertaken with appropriate approvals in accordance with the Scheme of Delegation for each invoice payment. Work flowed 3-way matching within the Business World system ensured order values, goods receipting values and invoice amounts agreed.
- Purchase orders had been suitably raised prior to invoice tax date (date services / works / goods provided) in the majority of cases. Where purchase orders had been issued after that date, the delay was minimal and had been raised against an existing contract.
- Separation of duties were suitably in place within Business World and evidenced in all cases tested regards ordering, goods receipting and authorisation.
- For the No Purchase Order invoices / exception payments (i.e., utility bills) sample tested, payments had been appropriately approved in accordance with the Scheme of Delegation.
- Payment of invoices had been suitably made within 30 days in the majority of cases.
- Payments made via CHAPS (Telegraphic Transfer) and Cheque / BACs requisition processes

agreed to supporting information regard details and amount.

- Sundry creditor payments suitably agreed to supporting documentation.
- Payment runs had been appropriately processed and reconciled accurately and completely between Business World and bank statements.
- Sample testing of transactions processed via uploading of spreadsheets directly into Business World confirmed that the payments per Business World agreed accurately and completely to the corresponding spreadsheet. Approval in accordance with the Scheme of Delegation had been suitably evidenced prior to upload by the designated budget manager or Section 151 Officer as applicable.

Findings and recommendations

Action is required to avoid exposure to significant risks in achieving objectives
Amber

1. Unique Tax References not obtained as a tax evasion preventative measure

Findings:

From testing of 15 transactions, we noted two instances where a VAT registration number had not been stated on the corresponding invoice. In these instances where the supplier was an individual, a Unique Tax Reference (UTR) had not been obtained prior to payment or quoted on the invoices. In one instance VAT (£1,600) had been claimed by the supplier and paid by the WMCA in the absence of a VAT or UTR number. This would therefore have been included in any claim submitted to HMRC.

With regard to ensuring VAT numbers or UTRs are obtained, Legal Services have advised that enforcing the requirement for a payee to provide a VAT number or UTR in respect of all payments would appear to be a preventative measure that WMCA would be expected to observe and a failure to do so could lead to a charge of failure to prevent tax evasion if a payee were subsequently to be convicted of tax evasion. Where there is no VAT number the WMCA would need to satisfy itself that the due tax will be paid so payments where there is no VAT number and no UTR should, if possible, be investigated.

We understand that the BW New Supplier Record form currently includes a field for recording the UTR number. Whilst inclusion of a VAT number is mandatory, the form may require amendment to ensure completion of either a VAT number or UTR number as mandatory to support compliance.

Implication:

The WMCA may find it difficult to demonstrate reasonable preventative measures were in operation in the event of query or challenge.

Recommendations:

- i. Where a supplier does not provide a valid VAT registration number, they should be instructed to provide a UTR instead prior to the WMCA undertaking any engagement with the supplier, as part of the WMCA's tax evasion prevention measures and demonstration of compliance with the Criminal Finance Act 2017.
- ii. A policy decision should be taken to advise current and prospective suppliers who engage with the WMCA that no business will be undertaken unless a valid VAT registration number or UTR is first provided.
- iii. An exercise should be undertaken to review all current supplier records to identify all instances where a valid VAT number or UTR has not been recorded. In these instances, the supplier should be requested to provide a valid VAT number or a UTR if they wish to continue undertaking business with the WMCA. Where a supplier does not provide a valid number, the above policy decision should be enforced.
- iv. Where the above exercise identifies cases where no VAT number and / or UTR was recorded to date, any payments made where tax was due (and paid) should be investigated for appropriate remedial action.
- v. Going forward, the Accounts Payable when scanning and registering invoices that include VAT should check to confirm that a valid VAT or UTR is recorded either on the invoice or within Business World. VAT payments should not be made until a VAT or UTR is first obtained.
- vi. Development of the New Supplier Record Form to accommodate mandatory completion of either a VAT number or UTR number as applicable should be reviewed to ensure the process of supplier record creation / amendment supports compliance as above.
- vii. Guidance on the above reiterating the requirement for WMCA to ensure compliance with the Act should be issued to all service areas to ensure that VAT numbers or UTRs are obtained early on in any supplier engagement and commissioning of goods/services/works.

Agreed Actions:

Action will be taken to address the above recommendations through updating of the New Supplier Record form to include a mandatory field for VAT and UTR numbers as well as contacting all suppliers with no VAT or UTR recorded, requesting the correct information once we have the additional resource in place.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

30 June 2022

2. Unauthorised and incomplete CHAPS and Cheque / BACs requisition payments and forms

Findings:

Whilst details of payments made via CHAPS (same day Telegraphic Payments) or Cheque / BACs requisition forms agreed to supporting information, we found areas with room for improvement in the processing of such payments based on our sample testing.

Eleven transactions paid by CHAPS forms or BACs / Cheque Requisition forms (total value £11,059,290) were tested. We noted that:

- The CHAPS form or Cheque / BACs form had not been fully completed in nine instances with several sections of the form not completed. Sections relating to Finance processing and bank authorisation had not been completed in any case.
- Checks stated as required on the forms to confirm goods received, order checked, price checked calculations checked had either not been completed or were stated as not applicable in six cases. In the remaining five cases, an AP Officer had initialled to evidence checks being undertaken when these checks should be undertaken by the responsible service area. In these cases, the AP Officer had also completed the details on the form.
- Certification of the forms by a budget manager had not been evidenced in 10 instances. Other supporting evidence of approval however was found in only two cases and was undertaken by officers in accordance with the Scheme of Delegation. In one case authorisation had been undertaken by the Head of Financial Planning rather than the designated budget manager. Whilst some payments may be for an invoice processed in Business World and authorised within workflow, the actual forms to request such a payment method were not authorised as required.

Recommendations to address the above issues had been previously made in 2020-2021.

Implications:

- Unauthorised payments may be made.
- Non-compliance with Financial Procedure Rules.
- Financial records may be incomplete or inaccurate leading to difficulties in determining actions taken in the event of query, challenge, or fraud.

Recommendations:

- i. CHAPS / TT forms should be fully completed and evidenced as approved in accordance with the Scheme of Delegation.
- ii. All checks to confirm that prices are correct, goods had been received and checked to order should be certified within the relevant section once undertaken by the most appropriate responsible officer i.e., within a service area and not Accounts Payable.
- iii. A separation of duties must be maintained between requesting a payment to be raised, completion of the form, checks undertaken and authorisation.
- iv. Incomplete and / or unauthorised forms should be returned for remedial action by the initiating service area to ensure payments are only made on the basis of fully completed and authorised forms.
- v. A review should be undertaken of the current processes (as well as the format of forms used) for actioning payment via CHAPs or Cheque / BACs forms to ensure fit for purpose, facilitates compliance with Financial Procedure Rules and provides a robust audit trail.

Agreed Actions:

Action will be taken to address the above recommendations ensuring that all payments records have the correct documents signed and attached and that this is undertaken as part of invoice posting on BW.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

30 June 2022

3. Weaknesses in supplier record creation and amendment process**Findings:**

We noted a number of issues in the processing, verification and approval of supplier record creation and amendments and specifically in relation to processing of bank detail changes. Previous recommendations had been made regarding the proper verification and processing of bank detail changes to prevent and detect fraud.

Testing of a sample of eight new supplier records and eight amendments identified:

- The WMCA Bank Details log maintained to record actions and checks undertaken for record creation and amendments had not been fully completed and / or contained inconsistencies in seven cases.
- Secondary validation checks required as part of the WMCA's process had not been evidenced as having been undertaken in any case.
- Documentary evidence that may have been used by officers to verify bank details, and approved exemption forms regards requirement to undertake verification checks could not be located at the time of audit. Consequently, it cannot be confirmed that bank details were created / changed in accordance with verified documentary evidence and that exemptions had been evidenced as approved and were appropriate.
- Several actions previously recommended were not evidenced as having been undertaken checking bank details to a second item of evidence i.e., a supplier's paying-in slip or bank statement header, compliance, and independent checks that processing of record creation and amendments had been undertaken correctly, and that bank details verification checks had only been undertaken by Finance Officers and not service areas.
- Online new supplier request, customer amendment and supplier amendment forms where these had been provided for testing were in some cases incomplete as they did not record the relevant bank details.

We noted that the Business World workflow process for creating new supplier records appeared not to include an approval stage and therefore could be processed entirely by one officer within Business World. As the same officer in some instances had also completed the verification checks, there was a limited separation of duties as well as lack of approval.

The Finance Officer (who has now left the employment of the WMCA) leading on supplier creation and amendments advised that when they took up their post in the 2021-2022 financial year they had not been made aware of previous recommendations and checks required as part of hand-over arrangements.

Recommendations to address the above issues had been previously made in 2020-2021.

Implications:

- Bank mandate fraud may not be prevented or detected.
- The WMCA's systems and records may not sufficiently evidence the checks and controls in operation and so it may be difficult to demonstrate actions taken in the event of query, challenge, or fraud.

Recommendations:

- i. Supplier record creation and amendment procedures specifically in respect of bank details should be clearly defined and documented, ensuring inclusion of robust checks to prevent and detect fraud and maintenance of a clear audit trail of processing and checks undertaken.
- ii. Bank details within supplier records should be subject to robust verification checks and validation processes as well as approval prior to actioning. Previously recommended procedure should be implemented and embedded.
- iii. Clear and consistent records should be maintained of the verification checks, validation processes and approvals undertaken both within manual and system records.
- iv. Supporting evidence used for bank detail verification checks as well as the corresponding online form should be held centrally together within Business World and attached to the supplier record within the supplier master file to create a central record.
- v. Where exceptions are approved for not undertaking the defined verification checks, the approved form should be attached to the supplier record within the supplier master file to create a central record.
- vi. Creation of new supplier records should include a work flowed approval stage within Business World, so as to be consistent with amendment processes.
- vii. Separation of duties should be maintained between request initiation, verification / validation checks, processing within Business World and approval.
- viii. Monitoring arrangements should be established to monitor compliance with the bank detail changes procedure and compliance checks suitably evidenced.
- ix. Periodic independent checks over and above the above monitoring arrangements should be undertaken and suitably evidence.
- x. All employees outside of WMCA Accounts Payable and Finance should be instructed that the bank detail verification checks must only be undertaken by the above Teams.

Agreed Actions:

Action will be taken to address the above recommendations including all new supplier record and amendment supporting documents to be retained directly within BW supplier records once verified as correct to maintain a clear document and audit trail.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 May 2022

4. Duplicate payment not detected

Findings:

We identified from sample testing that a duplicate payment had been made and that this had yet to be detected. The sampled invoice (£20,428 as an advance payment for event services) had been paid once via BACs and then subsequently paid again 16 days later via Telegraphic Transfer (same day payment). In addition, another invoice for the same amount against the same order had also been paid once via BACs and then one day later paid within the above-mentioned Telegraphic Transfer. In total £81,712.80 has been paid when only £40,856.40 should have been paid.

We further undertook a matching exercise of transactions between April 2021 and September 2021 which presented a number of matches on Supplier Name, Invoice Number and Amount. Review with and confirmation from the relevant service areas and the AP / AR Manager found that these were processing errors that had been subsequently rectified.

We noted that no other monitoring or exception reports over and above the standard but limited check within Business World were utilised by the WMCA.

Recommendations to address the above issues had been previously made in 2020-2021.

Implications:

Potential loss of funds as a duplicate payment had been made and this was not detected due to limited duplicate payment checks in operation within Business World, and manual processing and uploading of transactions.

Recommendations:

- i. Duplicate invoice / payment checks should be undertaken prior to payments being made, whether through workflow transactions within Business World or manually processed / uploaded transactions.
- ii. Wider matching criteria for identifying duplicate invoices / payments should be included within the checks undertaken.
- iii. To facilitate checks, duplicate invoice / payment exception reports should be developed and implemented. Such reports should be run, and results checked prior to processing any payment run (and as applicable before making a same day payment).
- iv. All checks and investigations undertaken should be clearly evidenced. Exception reports should be suitably retained as an audit trail.
- v. The above procedures should be clearly documented, and training provided to all relevant Finance employees.

Agreed Actions:

Action will be taken to address the above recommendations with the creation of a BW report to be run to highlight any possible duplicate entries before payment runs are confirmed.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

30 June 2022

5. Insufficient audit trail due to use of Teams messages

Findings:

We found that whilst Teams messages had been used due to current remote working arrangements which are likely to continue for some time, review of messages as part of testing undertaken indicated that they were insufficient in creating a centrally maintained and retained robust audit trail due to lack of clear referencing of messages, what the chat was specifically referring to and the attachments included.

Whilst it is noted that the Accounts Payable Team were able to retrieve messages for testing purposes, this may be more difficult later in the retention period of six years after the financial year in question.

In addition, although dedicated Teams channels had been established for BACs and Bank related processing and approvals, the Accounts Payable Team were currently not utilising a dedicated Teams channels. As messages would be held within individual officers' chat channels in Teams, this would make it difficult to maintain the audit trail as a centrally held record.

Recommendations to address the above issues had been previously made in 2020-2021.

Implications:

The audit trail may be incomplete, inaccurate, and not centrally held, making it difficult in the event of query, challenge, or fraud to determine actions taken and demonstrate compliance.

Recommendations:

- i. The suitability of Microsoft Teams messages as a means of documenting processing and approval actions undertaken by WMCA Finance should be reviewed to ensure it provides a clear and robust audit trail (to support resolution of queries or challenge or fraud) as part of WMCA's financial records and can be suitably retained according to applicable retention periods.
- ii. If Microsoft Teams messages continue to be used, clear and explicit messages must be maintained for each individual request for payment / processing approval with clear referencing of attachments and messages.
- iii. Language and terminology used within messages should be formal and appropriate for core financial business processes as these form part of the WMCA's financial records.
- iv. If Teams messages continue to be utilised, all messages pertaining to transactional processing and approvals should be within dedicated channels rather than individual officer chat.

Agreed Actions:

Action will be taken to address the above recommendations with all approvals to be recorded and attached to the source records invoice and spreadsheet uploads, as well screenshots of the Teams chat to be saved to the source record for ease of locating and maintaining a clear document and audit trail.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 May 2022

Account Receivable 2021 – 2022

Key issues identified

We found no major issues identifying several areas of good practice and making one **green** recommendation as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- Adequate procedures which include an adequate separation of duties were in place for raising and authorising sales invoices and credit notes, workflow within Business World ensures that the correct authorisations are in place.
- Sample testing identified that invoices were suitably authorised by a budget manager in accordance with the scheme of delegation.
- Sound procedures were in place for identifying income received. Income was recorded in a cashbook and then in Business World via a journal which was approved via workflow set up within the system.
- Sample testing of deposits identified that all had been banked intact.
- Adequate debt management procedures, including delegations for the approval of write-off's had been established.
- Reconciliations were suitably performed, and suspense items were promptly reviewed and cleared.
- Adequate procedures were in place for setting up new customers and making amendments to existing records.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency
Green

Overdue debtor invoices

Findings:

The impact of Covid-19 upon businesses was responded to by the WMCA through a decision to support suppliers through suspending debt recovery arrangements for an interim period whilst maintained regular contact with customers.

We noted that of debtor invoices totalling £382,156, 80% (£320,039) had not been paid by the customer at the time of the audit. We noted that whilst these were not aged debtors several were now overdue.

Implication: Funds due may not be successfully recovered.

Recommendation:

An exercise should be undertaken to review current debts to identify any additional remedial action that could be taken to recover funds due.

Agreed Actions:

Agreed. Collection activity has now been recommenced, supported by the establishment of a newly dedicated resource to undertake a credit control approach to ensure daily action is taken to progress collection of debts.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 March 2022

Budgetary Control 2021 – 2022

Key issues identified

We found no major issues identifying several areas of good practice as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- Detailed budget guidance was issued to WMCA employees who are involved with budget planning together with a timetable for the 2021 - 2022 budget setting process to assist with budget planning.
- A budget setting process was in place involving budget managers, heads of service and directors.
- The WMCA Board approved the consolidated budget on 12 February 2021 prior to the start of the financial year which corresponded to the budget set in Business World.
- Reporting to the WMCA Board on consolidated and detailed budget monitoring reports was undertaken on a timely basis during the period under review from April 2021 to September 2021 and was found to be accurate when compared to Business World. Under/overspends were being reported to WMCA Board with supporting explanations and actions taken, where required.
- Budgets were being reviewed and monitored at Strategic Leadership Team meeting each month.
- Cost centres were allocated to responsible budget managers.
- Final accounts had been prepared by September 2021 and published on 16 November 2021 which we understand was due to the late preparation of the accounts by External Audit. In accordance with the regulations a notice had been published to explain the reasons for late publication.

General Ledger 2021 - 2022

Key issues identified

We found no major issues identifying several areas of good practice as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- The payroll feeder system was reconciled on a regular basis to the General Ledger.
- Control accounts had been reconciled over the period examined and were update to date as of December 2021.
- Ticketing control accounts were reconciled on a regular basis.
- Responsibility for reconciliation and review of the bank statements to the General Ledger had been appropriately assigned and testing confirmed that these processes were being undertaken.
- Responsibility for reconciliation and review of the validation error codes had been appropriately assigned and testing confirmed that these processes were being undertaken.
- An additional level of assurance was provided from a monthly report on the level of overall balances and the explanation of movements provided for the required reconciliations.
- Changes to cost centres / account codes are appropriately authorised.
- Opening balances for 2021/22 had been correctly input into Business World and were in accordance with closing balances for 2020/21.
- Journals were authorised in accordance with the scheme of delegation and access controls and are processed on a timely basis.

Payroll 2021 – 2022

Key issues identified

We found no major issues identifying several areas of good practice and making one **green** recommendation as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- Instructions issued by Human Resources to Payroll Services for the creation and termination of employees within the Sage system provided a suitable separation of duties.
- Checks of starters / leavers and payroll amendments were suitably undertaken by two officers to ensure all changes have been correctly actioned.
- Sample testing of starters, leavers and amendments found that these were correctly processed and were in accordance with instructions from Human Recourses and source documentation.
- First salary payments for sampled new starters and final salary payments for leavers were correctly calculated. Sampled changes to current employees' grades or hours of work were also correctly calculated and supported by authorised documentation.
- Pre payroll runs were suitably checked and verified by the Payroll and Pensions Officers, including the review of exception reports.
- All payment runs sampled were suitably approved by the Group Payroll and Pensions Manager before payment made.
- BACS payments were correctly and accurately made in accordance with the monthly payroll calculation reports from SAGE.
- Access to the payroll system was limited to the Payroll Manager and the Payroll Officers and was restricted through password controls.
- Access to the Payroll SharePoint site where documentation was retained had been restricted to the payroll team members.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency

Green

Error in payments to third parties

Finding:

Due to an error in the Payroll Team when submitting monthly emails to the Financial Controller for approval of the BACS payments, the amounts previously paid in April 2021 were again paid in May 2021, instead of the actual payments due in May 2021. This error was also not detected at the point of approval.

At the time of audit, the Payroll Team were aware of the issue and the Accounts Payable Team were in the process of resolving this.

However, we found that the payments for April, June, July, and August 2021 had been correctly made.

Implication:

Lack of information within emails may lead to error and confusion.

Recommendation:

- i. All monthly emails submitted to the Financial Controller should clearly indicate the month to which the payments relate.
- ii. Before approving the third-party BACS payments, the Financial Controller should confirm that the payment information in the email relates to the correct month.

Agreed Actions:

- i. Month of third-party payments to be included in the header of the email
- ii. Confirmation that payment information relates to the correct month will be provided in email approvals going forward.

Responsible Officer:

- i. Kate Ketteringham - Group Payroll and Pensions Manager
- ii. Louise Cowen – Financial Controller

Target Date:

- i. Immediate
- ii. Immediate

Treasury Management 2021 – 2022

Key issues identified

We found no major issues identifying several areas of good practice and making two **green** recommendations as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- WMCA had adopted the CIPFA Code of Practice on Treasury Management in Local Authorities.
- The annual Treasury Management Strategy was approved by WMCA Board, following endorsement by the Audit, Risk and Assurance Committee (ARAC).
- The Treasury Management Practices and Treasury Management Policy Statement were scrutinised and endorsed by ARAC.
- Prudential Indicators were appropriately presented and approved by the WMCA Board.
- Treasury Management training was provided to ARAC members.
- A Borrowing Strategy was agreed by WMCA Board, with a debt cap agreed with HM Treasury.
- An Investment Strategy was agreed by WMCA Board, with suitable limits and credit ratings for the financial institutions stated.
- Sample testing of ten investment and borrowing transactions confirmed that the cashflow spreadsheet, Treasury Live (treasury management software system) and Business World were accurately maintained.
- Investments and borrowings were placed with suitable organisations.
- Evidence in support of the transactions was maintained.
- A separation of duties was evident in the majority of instances. Where it was not evident in the case of the overnight placement of monies with the WMCA's bank, suitable compensating controls were in place.
- For long-term borrowing repayments, suitable notification was received in advance of the payment.
- Future repayments of long-term borrowing were scheduled in the cashflow.
- Bank controls prevented inputting officers from authorising the online bank transactions

which provided a suitable separation of duties.

- It was confirmed that for two loans that the WMCA had made, repayment agreements had been suitably established
- Daily reconciliations between the bank statements and cashflow record were completed by the Treasury Accounting Assistant.
- Testing confirmed that investment activity was subject to a monthly reconciliation to the General Ledger in Business World and was undertaken on a timely basis.
- A report on the outturn for 2020-2021 was presented to WMCA Board.
- A report on mid-year treasury management activities and details of external investments for 2021-2022 was presented to ARAC. It is understood that this will also be presented to WMCA Board.
- Both the outturn report for 2020-2021 and the mid-year report for 2021-2022 confirmed compliance with various Treasury Management Indicators, CIPFA's Code of Practice and WMCA's Treasury Management Strategy.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency
Green

1. Treasury Management Policy Statement not presented to WMCA Board for approval

Findings:

Whilst the Treasury Management Policy Statement (TMPS) was presented to the Audit, Risk & Assurance Committee (ARAC) for review and endorsement on 18 January 2021, it was noted in the ARAC minutes that the TMPS would receive “onward approval” from WMCA Board. Although these minutes were subsequently presented and noted by WMCA Board on 19 March 2021, approval by the WMCA Board was not explicitly minuted.

Implication: Incomplete governance records may lead to confusion.

Recommendation:

The Treasury Management Policy Statement should be presented as a specific document and evidenced as approved by WMCA Board.

Agreed Action:

The TMPS will be presented with the relevant year TMS within future Board reports for approval.

Responsible Officer:

Mark Finnigan, Lead Treasury Accountant

Target Date:

28 February 2022

2. Confirmation of independent review of investment reconciliation not consistently provided

Findings:

We understand that an independent review of the monthly reconciliation of investment activity is undertaken by the Financial Accountant. However, confirmation of this was not provided to the Treasury Management team.

Implication:

Potential for errors to be missed.

Recommendation:

Action should be taken in liaison with the officer responsible for independent review to ensure that confirmation is provided post completion.

Agreed Action:

The Lead Treasury Accountant / Head of Financial Planning will agree with the Chief Accountant the most appropriate resource/format for the independent review of monthly reconciliation and report/minute to Treasury Management Group.

Responsible Officer:

Mark Finnigan, Lead Treasury Accountant
Carl Pearson, Head of Financial Planning

Target Date:

31 January 2022

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted, or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	26 January 2022
Final issued	7 March 2022
ARAC reporting date	21 March 2022
ARAC meeting date	12 April 2022



West Midlands Combined Authority

Internal Audit Report: Longbridge Park and Ride Income Management and Charging Arrangements 2021-2022

Report Date: 30 March 2022

Report Distribution:

TfWM	Anne Shaw - Executive Director for Transport for West Midlands Pete Bond – Director of Integrated Transport Services Andrew Thrupp – Head of Operational Assets
Legal Services	Satish Mistry – Interim Director, Law and Governance Jayne Middleton - Interim Legal Services Manager
Finance	Linda Horne – Finance Director Louise Cowen – Financial Controller Eleanor Yates – Management Accountant

1. Executive summary

Introduction

An audit of the Longbridge Park and Ride Income Management and Charging Arrangements was undertaken as part of the approved internal audit plan for 2021 – 2022.

The car park opened in August 2021 and is a pay on exit car park with Automatic Number Plate Recognition. Payments can be made on departure using cash, contactless or credit/debit card at a ticket machine or one of the smart payment options available e.g. the Swift transport smart card.

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives.

Scope	Potential risks
<p>The following areas were included in the review:</p> <ul style="list-style-type: none">• Setting of charges• Receipting of income• Reconciliation arrangements• Income monitoring and reporting	<ul style="list-style-type: none">• All income due is not received.• Income is not receipted on an accurate, complete, and timely basis.• Reconciliations are not undertaken to confirm all income due has been received.• Misappropriation or loss of income may not be prevented or detected.

Limitations to the scope of our audit

This review included high-level coverage of the above scope areas and sample testing of income received, covering the various methods of income collection used.

Overall conclusion

Our audit provides **Limited** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
<p>Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.</p>	<p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>	<p>There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</p>	<p>A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.</p>

Key issues identified

We have identified one **red** and two **amber** issues where improvements could be made, arising from the following:

- Appropriate signed contractual documentation had not been evidenced as having been established for the commissioning of car parking services for Longbridge and other sites leading to non-compliance with Contract Procedure Rules and Public Procurement Regulations.
- Car parking charges had not been evidenced as approved in accordance with WMCA governance / delegated authorities prior to implementation.
- Receipting for cash and phone payments and reconciliation of all income was yet to be fully established or undertaken on a regular basis.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Findings and recommendations

Action is imperative to ensure that the objectives for the area under review are met
Red

1. No contract in place

Findings:

We identified that there was no evidence of current appropriate signed contractual documentation having been established for the commissioning of car parking services (including collection of cash within controlled parking and enforcement management) for Longbridge and other sites leading to a breach of the WMCA's Contract Procedure Rules.

Only a specification for Considerate Car Park Enforcement services dated 2016 in respect of the Sutton Coldfield Railway Station Park and Ride was provided as evidence of a contract being in place. It is understood that a contract was awarded to Vehicle Control Services Ltd (VCS Ltd). However, there was no evidence available to support this. The specification included provision for similar services to be provided at additional locations if called upon at a later date. Discussion identified that this was extended to include Bromsgrove and Longbridge.

We understand that an original contract commenced 1 June 2016 for an initial period of three years with options to extend for two additional years which were taken up, ending on 31 October 2021. It was noted that the extension letters were not signed and had been issued to Excel Parking Services Ltd, understood to be the parent company of VCS Ltd. However, there is no documentary evidence to demonstrate the decision making and procurement activity to award to another contractor.

Although the contract period ended 31 October 2021, service provision continues to be provided at the time of review. Whilst a briefing note was drafted by the Head of Operational Assets and laid out the contractual arrangements to date and a recommendation to further extend for an additional 12 months from 1 November 2021 to 31 October 2022 (until a new contract is established for all Park & Ride facilities expected to be in place by 1 November 2022), there is no evidence of where and when and by whom the recommendation stated had been reviewed or approved by appropriate officers. In addition, there is no evidence of review by Legal or Procurement to confirm compliance with Contract Procedure Rules.

Consequently, the above arrangements and lack of documentary evidence fail to demonstrate and / or achieve compliance with the WMCA's Contract Procedure Rules (Section 18) and the Public Procurement Regulations (Part 2, Chapter 4).

Implications:

- A breach of the WMCA's Contract Procedure Rules (Section 18) and the Public Procurement Regulations (Part 2, Chapter 4).

Recommendations:

Legal Services

- i. In accordance with the WMCA's Contract Procedure Rules (Section 18) "all contracts must be concluded formally in writing before the supply, service or construction works begins and no payments should be made until the relevant contracts are formally concluded, except in exceptional circumstances and then only with the written consent of the Head of Governance".
- ii. Signed copies of all contracts should be securely and centrally retained as a formal record of the WMCA, and as demonstration of adherence with the Contract Procedure Rules and Public Procurement Regulations in all cases.
- iii. Copies of signed contracts should be provided immediately after signing to the responsible service area for their operational use and local retention. This should not be a substitute for central retention by Legal Services.
- iv. As part of the above, resolution of award to a subsidiary company instead of the original parent company should be addressed.
- v. All Variations / extensions to contracts should be signed by the relevant WMCA senior officer and issued prior to the commencement of the extension and service delivery.

TfWM Operational Assets

- vi. Action should be taken (in liaison with Procurement and Legal Services) to bring about compliance with the Contract Procedure Rules in respect of the current commissioning of car parking enforcement services (including cash collection) for all sites including Longbridge, ensuring appropriately executed contract documentation for the remaining period is put in place.

Agreed Actions: Legal Services

Actions (i) to (ii)

The recommendations are agreed. It is acknowledged that there are historic gaps in processes that have led to the department not being able to provide signed copies of contracts in a timely manner. However, steps have been taken to address the areas of concern identified.

Processes have been established to ensure that once a contract document has been reviewed by Legal Services, the contract signature form will be signed by the relevant Budget Manager and Head of Service, and subsequently by Procurement and Legal Services, prior to approval by the Interim Director, Law and Governance ensuring the contract is executed in accordance with the Constitution and Public Procurement Regulations. The Contract is then executed by both parties with the authorised signatory for the WMCA using the contract signature form to provide comfort for signature. A Business Support Team for Legal Services has been established to support this process.

Signed copies of all documents are now scanned and sent to the client. Legal and the client are working towards establishing a closed Share-point space to store all signed contracts, both past and current, for all Directorates.

Target Date: Immediate

Action (iii)

Action is being taken to review the facilities and processes for storage and documentation. Recommendations for a long-term storage solution for electronic and hard copy documents to be put into place a process for storage and documentation will be pursued. The process will consider where, and by who, the contracts will be held, retention periods and information governance and data security issues, and ensure that the contracts are centrally accessible and that the process is subject to regular spot checks to ensure compliance.

A procurement exercise is currently being undertaken to commission an electronic signing system for execution of contracts to facilitate signing by internal and external parties.

Target Date: 31 July 2022

Action (iv)

Agreed. A review will be undertaken to ensure the issue of contract award to a parent company but delivery of services by a subsidiary will be resolved as part of the issuing of a formal extension letter to cover the period until November 2022.

Target Date: 30 April 2022

Action (v)

Agreed, Formal variations would be required in this instance. This will be addressed going forward for current and future extensions and variations in accordance with the Constitution ensuring appropriate documentary evidence is maintained.

Target Date: Immediate

Responsible Officer: Jayne Middleton – Interim Legal Services Manager

Agreed Actions: TfWM Operational Assets

Action (vi)

To bring about compliance for the current commissioning of car parking enforcement and income collection services, a briefing note detailing the required arrangements going forward has been drawn up. This will now be presented to the Interim Legal Services Manager for authorisation. A formal extension letter will then be issued once certified by Interim Legal Services Manager and the contractor. Purchase orders had already been issued to the contractor for current period and will also be issued for the coming period.

Target Date: 30 April 2022

A procurement exercise is currently being undertaken to commission car parking compliance and income collection services for all car parks applicable from 1 November 2022.

Target Date: 1 November 2022

A review will be undertaken of all current contracts in liaison with the Interim Legal Services Manager to ensure that there is an appropriately sign contract in place and that a copy is held centrally and by the Assets Team. In addition, for all new contracts a copy of the signed contract will be obtained and held within the service area.

Target Date: 31 July 2022

Responsible Officer: Andrew Thrupp – Head of Operational Assets

**Action is required to avoid exposure to significant risks in achieving objectives
Amber**

2. Unapproved parking charges

Findings:

Formal written evidence to demonstrate approval of parking charges for the Longbridge car park in accordance with delegated responsibility had not been located by officers at the time of review.

The WMCA Board on the 9 February 2018 delegated the responsibility for setting exact levels of car parking charges for Longbridge car park jointly to the WMCA Lead Member for Transport and the Managing Director of Transport for West Midlands, in consultation with Birmingham City Council Lead Member for Transport, to enable the ability to set and adjust charges in line with achieving modal shift objectives and repayment requirements for scheme borrowing.

However, an email dated 16 October 2019 indicated that a verbal approval had been received from the relevant Members and that the Managing Director, TfWM and the TfWM Leadership Team had approved the charges.

Implications:

- Unapproved parking charges may be in operation.
- Setting of charges may not ensure they fully align with achievement of modal shift objectives and repayment requirements for scheme borrowing.

Recommendations:

- i. Car parking charges should be reviewed and approved in accordance with delegated responsibilities ensuring that all requirements have been taken into consideration.
- ii. Review should be undertaken on an annual basis and suitably evidenced within governance records. Where charges are amended, approval should be sought and evidenced.
- iii. If applicable, the outcome should be reported to the WMCA Board.
- iv. The above should be undertaken in accordance with the WMCA's Financial Regulations as applicable regarding charging for services.

Agreed Actions: TfWM Operational Assets

Agreed. Action will be taken to address the above issues. Going forward charges will be reviewed taking account of current usage levels since opening. Formal approval will be sought and suitably evidenced.

Responsible Officer: Andrew Thrupp – Head of Operational Assets

Target Date: 31 October 2022

3. Lack of effective receipting and reconciliation of income**Findings:**

We found that receipting and reconciliation for all payment methods was yet to be fully established and that reconciliations were not undertaken on a regular and frequent basis. Whilst it is noted that at the time of review a total of £4,021 had been received in car parking income, there is a need to ensure processes are appropriate and embedded going forward as usage of the car park and income increases in due course.

Based on information prepared by the contractor, emptying of ticket machines was not being undertaken on a regular and consistent basis. In addition, the audit reference (sequentially generated by the ticket machine) was not being recorded on the information submitted by the contractor. As a result, it would not be possible to confirm that WMCA had received all monies collected or instances where there are any missing collections.

Since the Longbridge car park opened in August 2021, only one reconciliation had been undertaken covering the five-month period between August and December 2021 for income received through Swift related payment methods.

However, no reconciliation had been undertaken for cash and phone payments at the time of review. In addition, no independent system generated records detailing cash collected via ticket machines and monies collected via the phone app had been received to enable reconciliations to be undertaken.

Implications:

All income due but not received may not be identified on a timely basis or at all, for remedial action.

Recommendations:**TfWM Operational Assets**

- i. All ticket machines should be emptied on a suitably regular and frequent basis. The frequency of collections should be agreed with the contractor in writing as part of documented contractual arrangements.
- ii. The audit reference (sequentially generated by the ticket machine) should be recorded on the information submitted by the contractor to inform identification of any missing collections.
- iii. Independent ticket machine and phone payment system generated reports should be obtained to ensure effective reconciliations between income stated as collected by the contractor and that recorded by the machine / system.

Finance

- iv. Reconciliations should be undertaken appropriately for each income type on a monthly basis as a minimum until such time that processes have fully embedded, subject to outcomes of reconciliations regarding discrepancies and the levels of income received.

Agreed Actions: TfWM Operational Assets**Actions (i) to (iii)**

Agreed. Action will be taken to address the above issues. The formal extension letter will cover the above arrangements.

Responsible Officer: Andrew Thrupp – Head of Operational Assets

Target Date: 30 April 2022

Agreed Actions: Finance**Action (iv)**

Going forward reconciliations will be undertaken on a monthly basis. On receipt of the independent ticket machine and phone payment system generated reports a full reconciliation will be undertaken for all income received.

Responsible Officer: Eleanor Yates - Management Accountant

Target Date: 30 June 2022

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted, or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	24 February 2022
Exit meeting	11 March 2022
Final issued	30 March 2022
ARAC reporting date	1 April 2022
ARAC meeting date	12 April 2022