West Midlands Combined Authority

Audit, Risk & Assurance Committee

Date	12 April 2022
Report title	Internal Audit Plan 2022-2023
Accountable Chief Executive	Laura Shoaf, Chief Executive
Accountable Employee	Satish Mistry, Interim Director, Law and Governance
Report to be considered by	N/A

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

1. Review and approve the updated version of the Internal Audit Plan for 2022-2023, which now includes an indicative timetable for its delivery.

1.0   Purpose

1.1   The purpose of internal audit is to provide the WMCA with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.

1.2   The purpose of this document is to provide the WMCA with a risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs. The initial assessment of assurance needs exercise was undertaken by the WMCA's Internal Audit Liaison Officer. The assessment is then used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.

1.3   In addition, the WMCA Senior Leadership Team was consulted as part of development of the internal audit plan prior to presentation to the Audit, Risk and Assurance Committee.

1.4   The internal audit plan was provisionally approved at the January 2022 meeting of the Committee, with the proviso that an updated version of the plan to include an indicative timetable would be presented at the April 2022 meeting.

2.0   Background

2.1   Internal audit is a statutory requirement for all Local Authorities. The audit service provided to the WMCA is in accordance with the Local Government Act (1972), the Accounts and Audit Regulations Act and the Public Sector Internal Audit Standards.

3.0   Wider WMCA Implications

3.1   There are no implications

4.0   Financial implications

4.1   There are no implications.

5.0   Legal implications

5.1   There are no implications.

6.0   Equalities implications

6.1   There are no implications.

7.0   Other implications

7.1   Not applicable.

8.0   Schedule of background papers

8.1   None.

9.0   Appendices

9.1   None
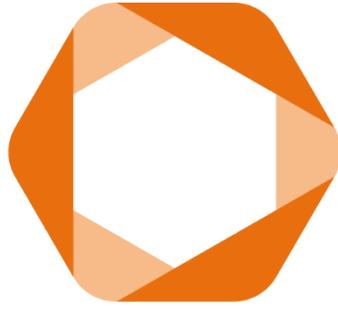
DRAFT Internal Audit Plan – 2022-2023

Delivered by City of Wolverhampton Council - Audit Services

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A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

WMCA's Internal Audit Liaison Officer identifies the audit universe (i.e., a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the WMCA's ability to deliver its objectives.
- Key Financial Systems - work undertaken in close liaison with the external auditors, to help inform and support the work they are required to undertake.
- Areas where past knowledge, management requests and experience etc. is used.

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Step 2 – Ranking

Using an assessment of the assurance need the WMCA Internal Audit Liaison Officer identifies each auditable area as a high, medium, or low assurance need.

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Step 3 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in the 2022-2023 internal audit plan.

A glossary of terms

Definition of internal auditing
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Governance
The arrangements in place to ensure that the WMCA fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient, and ethical manner.

Control environment
Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the WMCA's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws, and regulations – including how risk management is embedded
- ensuring the economical, effective, and efficient use of resources and for securing continuous improvement
- the financial management of the WMCA and the reporting of financial management
- the performance management of the WMCA and the reporting of performance management.

System of internal control
The totality of the way an organisation designs, implements, tests, and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management
A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring, and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews
A review that:
- identifies and records the objectives, risks, and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide if they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e., through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

Audit, Risk and Assurance Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance

A confident assertion, based on sufficient, relevant, and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the WMCA's policies, processes, and controls and the second being managers' own checks of this first line.

Internal Audit standards
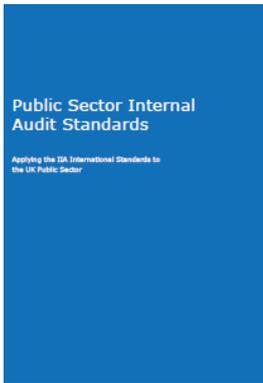
The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards.

Introduction

- The purpose of internal audit is to provide the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.

- We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating, and reporting to management on its adequacy and effectiveness.

- There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The WMCA has an Internal Audit Charter which was reviewed and approved by the Audit, Risk and Assurance Committee and defines the activity, purpose, authority, and responsibility of internal audit, and establishes its position within the WMCA. This document sits alongside the charter and helps determine how the internal audit service will be developed.

- The purpose of this document is to provide the WMCA with an internal audit plan, based upon an assessment of its assurance needs. The initial assessment of assurance needs exercise was undertaken by the WMCA's Internal Audit Liaison Officer This exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will also be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.

Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, where appropriate within each audit review, to help gather evidence to support our opinion to the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

Assessing the effectiveness of the system of control

- To be adequate and effective, management should:

  - Establish and monitor the achievement of the WMCA's objectives and facilitate policy and decision making.
  - Identify, assess, and manage the risks to achieving the WMCA's objectives.
  - Ensure the economical, effective, and efficient use of resources.
  - Ensure compliance with established policies, procedures, laws, and regulations.
  - Safeguard the WMCA's assets and interests from losses of all kinds, including those arising from fraud, irregularity, or corruption.
  - Ensure the integrity and reliability of information, accounts, and data.

- These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control.

- The plan contained within this report reflects the assessment of the audit work required to measure, evaluate, and report on the effectiveness of risk management, governance, and internal control.

Assessment of assurance needs methodology

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the WMCA and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the WMCA's objectives.

- Activities that contribute significantly to the WMCA's internal control system, and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the WMCA over the reliability of its system of control in an effective and efficient manner.

- The assessment has been undertaken using the following process:

  - Identifying the core objectives of the WMCA and, where available, the specific key risks associated with the achievement of those objectives.

  - WMCA's Internal Audit Liaison Officer identifying auditable themes and areas that impact significantly on the achievement of the control objectives.

  - Assigning assurance need values to the auditable themes and areas, based on the evidence obtained.

- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2022-2023 financial year and is detailed at the end of this document.

The assessment of assurance needs - identifying the WMCA's priorities and the associated risks

- The following are the WMCA's key priorities:

  - Transport
  - Housing and Land
  - Skills and Productivity
  - Economy and Innovation
  - Environment and Energy
  - Public Service Reform and Social Economy
  - Wellbeing
  - Culture and Digital
  - Inclusive Communities

- Supported by the WMCA's values:

  - Be collaborative
  - Be innovative
  - Be driven
  - Be inclusive

- The WMCA has identified the following strategic risks (scoring 20 or above) as potentially impacting upon its ability to achieve its key priorities:

  - Financial assumptions for Investment Programme (SRR* R001)
  - External challenges and policy changes (R002)
  - Data Protection and Information Security (R003)
  - Stakeholder and political relations (R004)
  - Employee capacity and capability (R005)
  - Commerciality through use of company delivery models (R008)
  - Project and programme appraisal and assurance (Single Assurance Framework) (R009)
  - Governance arrangements (R010)
  - Reputation (R013)
  - Delivering the 2041 Carbon Budget reduction (R015)
  - Investment Programme delivery – reputational impact (R019)
  - Financial resilience of the WMCA to absorb fiscal shocks (R021)
  - Metro tram service suspension (R022)

The above risks consider and reflect within their respective risk scores, the impact and likelihood of Covid19 effects and response to risk including long term economic and service delivery impact.

*Strategic Risk Register ID

Developing an internal audit plan

- The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the WMCA's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by such risk analysis.

- In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

- It is recognised that a good internal audit plan should achieve a balance between setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. This continues to be of particular importance for 2022-2023 as WMCA will continue to respond to the effects of the Covid-19 pandemic and the impact of this on its business.

- Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.

- The assessment of assurance need's purpose is to:

- - determine priorities and establish the most cost-effective means of achieving audit objectives.
  - assist in the direction and control of all audit work.

- This exercise builds on and supersedes previous internal audit plans.

- Included within the plan, in addition to audit days for field assignments are:

  - a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
  - a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
  - an audit management allocation, which is used for management, quality control, client, and external audit liaison and for preparation for, and attendance at various member meetings and Audit, Risk and Assurance Committee etc.

Considerations required of the Audit, Risk and Assurance Committee and the WMCA's Senior Management Team

- Are the objectives and key risks identified consistent with those recognised by the WMCA?

- Does the plan include all the themes which would be expected to be subject to internal audit?

- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

- Does the plan cover the key risks as they are recognised?

How the internal audit service will be delivered

Staffing

The audit team follow the City of Wolverhampton Council's core behaviours. They are recruited, trained, and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All employees are subject to the Council's Professional Conversation scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills, and experience.

Resources required
It is estimated that approximately 185 internal audit days (including fraud, assurance, and contingency work) will be required to deliver the audit plan.

Quality assurance
All audit work undertaken is subject to quality assurance procedures as required by the Public Sector Internal Audit Standard and reports are subject to review by professionally qualified accountancy staff.

The internal audit plan 2022-2023

Auditable area	Purpose	Rating	Quarter (month)	Indicative ARAC Meeting
Cross Organisation				
External Funding Applications (Bid Management)	A high-level review of the newly developed External Funding Application Process as part of WMCA's Bid Management approach to ensure the process suitably reflects robust arrangements and best practice.	High	Quarter 1 (April)	September 2022
Business Continuity	A review of the business continuity arrangements in place within WMCA to ensure it reflects and can respond to the business needs of an agile workforce in the event of disruption to ICT services and/or the working environment.	High	Quarter 3 (November)	April 2023
Information Assurance and Cyber security	A review of the Security policy framework to demonstrate appropriate Information security management arrangements are in place in order to protect WMCA's data assets.	High	Quarter 1 (June)	November 2022
Organisational change	A review of the management arrangements for recruitment and changes to the establishment, including departmental restructuring, ensuring the adoption of and compliance with the Managing Organisational Change Policy and Changes to Establishment Policy.	High	Quarter 1 (July)	November 2022
Key Financial Systems	To provide assurance that the key financial processes are operating, including: • Payroll (full systems audit due to system change) • Accounts payable • Accounts receivable • General ledger	High	Quarter 3 (October)	January 2023

Auditable area	Purpose	Rating	Quarter (month)	Indicative ARAC Meeting
	• Budgetary control • Treasury Management			
Procurement Exemptions	A review of the policy and procedure for Exemption forms, ensuring compliance with Delegations of Authority, Public Procurement Regulations, and financial obligations with contractor supply.	High	Quarter 4 (February)	June 2023
IR35	A review of the management of IR35 to ensure WMCA has robust systems and procedures in place to manage compliance with IR35 to avoid the risk of financial penalties.	High	Quarter 4 (January)	June 2023
Corporate Asset Acquisition and Disposal Framework	To review the structure of, and operational compliance with the Corporate Asset Acquisition and Disposal Framework.	High	Quarter 4 (March)	June 2023
Environmental Management System	A review of the Environmental Management System to ensure an effective system is in place within the organisation demonstrating how it addresses and minimises environmental impacts and manages legal compliance as part of the compliance obligations for retention of ISO 14001.	Medium	Quarter 3 (December)	April 2023
Transport				
Bromsgrove Rail Station	A high-level review of the management and contractual arrangements for the operation of the Bromsgrove Rail Station including compliance with the contractual obligations of the WMCA and its partner organisations.	High	Quarter 2 (July)	November 2022
Land and tenant management	A review of the arrangements in place for retail lettings and management of tenancies across TfWM's infrastructure.	Medium	Quarter 3 (December)	April 2023

Auditable area	Purpose	Rating	Quarter (month)	Indicative ARAC Meeting
Housing				
Single Commissioning Framework	A review of the effectiveness of the Single Commissioning Framework in delivering value for money and desired outcomes to meet funding aims and associated strategic objectives.	High	Quarter 2 (August)	January 2023
Productivity and Skills				
Adult Education Budget	A review to seek assurance on the robustness of provider performance management arrangements and controls in ensuring compliant and effective use of funding and delivery of education provision by suppliers.	High	Quarter 2 (September)	January 2023

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

Auditable Area	Purpose
Consultancy and advice	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Counter Fraud	Where required the carrying out of investigations into areas of suspected or reported fraudulent activity across the WMCA.
Recommendation follow up	The follow up of key internal audit recommendations including continued oversight of limited opinion audit reports.
Audit Management	Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings. Preparation and presentation of papers for the Audit, Risk and Assurance Committee, and providing advice and training to committee members as and when required.