



WEST MIDLANDS
COMBINED AUTHORITY

Audit, Risk & Assurance Committee

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| Date | 17 November 2017 |
| Report title | Internal Audit Update |
| Accountable Chief Executive | Deborah Cadman, Chief Executive of the WMCA Email: Deborah.Cadman@wmca.org.uk Tel: 0121 214 7552 |
| Accountable Employee | Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: 0121 214 7435 |
| Report to be/has been considered by | Not applicable |

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

Note the contents of the latest Internal Audit Update Report.

1.0 Purpose

1.1 The purpose of this report is to present the Committee with an update on the work completed by internal audit so far this financial year.

2.0 Background

2.1 In accordance with the agreed work programme for internal audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing their risk management, governance and control environment.

2.2 The reports will also feed into the Annual Internal Audit Report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

3.0 Wider WMCA Implications

3.1 There are no implications

4.0 Financial implications

4.1 There are no implications

5.0 Legal implications

5.1 There are no implications

6.0 Equalities implications

6.1 There are no implications

7.0 Other implications

7.1 Not applicable

8.0 Schedule of background papers

8.1 None

9.0 Appendices



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Internal Audit Update Report Quarter 2 2017-2018

1 *Introduction*

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2017- 2018 internal audit plan.

The Audit, Risk and Assurance Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

| Limited | Satisfactory | Substantial |
|--|--|---|
| There is a risk of objectives not being met due to serious control failings. | A framework of controls is in place, but controls need to be strengthened further. | There is a robust framework of controls which are applied continuously. |

Year on year comparison

Four pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over the previous year is set out below:

| Opinion | 2017/18 (@ Q2) | 2016/17 |
|--------------|-------------------|---------|
| Substantial | 0 | 4 |
| Satisfactory | 4 | 4 |
| Limited | 0 | 2 |

2 *Summary of audit reviews completed*

The following audit reviews were completed by the end of the second quarter:

| Auditable area | Assessment of Assurance Need | Recommendations | | | | | Level of assurance |
|--|------------------------------|-----------------|-------|-------|-------|---|--------------------|
| | | Red | Amber | Green | Total | Number accepted | |
| Previously reported: | | | | | | | |
| Programme Management Office Project Appraisal and Support Functions | High | - | 4 | 2 | 6 | 5* | Satisfactory |
| Transport for West Midlands Capital Programme | High | - | 2 | 1 | 3 | 3 | Satisfactory |
| Expenses, and Gifts and Hospitality | Medium | - | 1 | 3 | 4 | 4 | Satisfactory |
| Reported this quarter for the first time: | | | | | | | |
| Draft Report: Investment Programme - Governance Arrangements for Project Appraisal and Approval | High | - | 8 | 8 | 8 | Currently in draft format awaiting response | Satisfactory |

* this issue related to certification of approvals and will be revisited later in the year.

3 *Any key issues arising from our work completed in Quarter 2*

We are pleased to report that no limited reports were issued during quarter two.

Investment Programme - Governance Arrangements for Project Appraisal and Approval

An audit of the governance arrangements for project appraisal and approval within the Investment Programme was undertaken as part of the approved internal audit plan for 2017/18. The Assurance Framework outlines the Project Lifecycle Process which stipulates the assessment and evaluation processes and associated roles and responsibilities at each stage of the Project Lifecycle.

The aim of the Project Lifecycle Process is to undertake assessment and evaluation that results in recommendations and approvals that ensure Investment Programme funding is allocated to projects that best fit the strategic objectives as stated in the Strategic Economic Plan. The Investment Programme is a 30-year programme, recently completing year one which involved a review of projects that are in the early stages of development.

The Project Lifecycle has been translated into the Integrated Assurance and Approvals Process Flow (Process Flow) which reflects the governance and decision-making arrangements supporting the Project Lifecycle. This Process details the specific panels and boards responsible for making recommendations, endorsements and approvals at Strategic Outline Business Case stage, Outline Business Case stage and Full Business Case stage.

We have recently issued a draft report with a satisfactory level of assurance. In the draft report we made eight recommendations which are currently under consideration and further details of these will be provided in our next progress report.

The new incoming Director of Finance welcomed this independent review of the current programme governance and approval processes for the Investment Programme. As Section 151 officer as well as accountable lead for the delivery of the Investment Programme, they have agreed to undertake a further review of the current arrangements and controls for the Investment Programme.

The Director of Finance along with the Investment Board want to be confident with the processes and sub-boards feeding into the Investment Board and recognise that there needs to be clear demonstration that robust processes for control and project appraisal exist to provide assurance to the Investment Board prior to the decision-making process.

They will lead on undertaking a review of the current processes and will take into consideration the recommendations from our internal audit review. They will also provide an update regarding completion of this review at the Audit, Risk and Assurance Committee meeting scheduled for January 2018.

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee.

4 *The Internal Audit Plan 2017-2018*

The audit plan is re-profiled throughout the year as and when the risk profile of the Combined Authority changes, and to react to emerging issues, management and Audit, Risk and Assurance Committee requests.

Following on from its initial approval, two reviews have been deferred until 2018/19 in order to enable processes to bed in before review, as they are currently still in their development stage, these are:

- Commission Governance
- Investment Programme – Contract Compliance

However, an additional review on providing assurance that the Authority has robust systems and procedures in place to manage compliance with IR35 and has identified any contractors who fall within scope, will be undertaken and reported back to the Audit and Risk Assurance Committee.

The scheduled review on the establishment of the Mayoral Office will focus upon budget setting and subsequent monitoring in accordance with the constitution.

We continue to work with the Combined Authority on an on-going basis as part of our Transition Planning and Delivery review.

The remaining reviews from the Internal Audit Plan are either underway, or scheduled to be completed by the year end:

- Key Financial Systems
- Data Security
- Election Costs
- Treasury Management
- National Fraud Initiative
- Recommendation Tracking

5 *The Internal Audit Plan 2018-2019*

We are also currently meeting with the wider teams across the Combined Authority in preparation for the development of our internal audit plan for next year. Once finalised this will also be presented to the Committee.