



West Midlands Combined Authority

Internal Audit Report: WMCA Key Financial Systems 2022 - 2023

Report Date: January 2023

Report Distribution: Linda Horne – Finance Director
Carl Pearson – Head of Major Programmes
Louise Cowen – Head of Financial Management

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 2022-2023.

All the WMCA's key financial systems are considered to have a potential 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:

- Accounts Payable
- Accounts Receivable
- Budgetary Control
- General Ledger
- 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).
- CHAPS/Faster payments are appropriately processed and authorised.
- 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.

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. Testing was undertaken for the period April 2022 to September 2022. The reviews also included the follow-up of previous recommendations made in 2021-2022.

Note: Payroll has been audited as a separate systems review.

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 |
| Treasury Management | Substantial |

| 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 three **green** issues. These are further detailed in section two of this report, as well as examples of good practice identified for all audits undertaken.

This report will also 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 2022-2023

Key issues identified

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

- Goods receipting was not always completed promptly, and some invoices were paid outside the expected payment period of 30 days.
- CHAPS / Telephonic Transfer forms were not always fully completed and evidence of approval throughout the process was not always evident.
- Payment runs (BACS processing) did not always show evidence of approval throughout each stage of the process.
- New and amended supplier supporting information to validate changes made was not always evident, and the completion of finance officer checks was not always evident.
- A budget manager had approved a high value spreadsheet upload transaction; however, this was above the level defined in the Scheme of Delegation.

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:

Purchase requisitions, orders and invoices

- Business World had been used to process the payments.
- Purchase orders had been suitably raised and appropriately approved in accordance with the Scheme of Delegation for each invoice payment against these orders.
- Where required, Procurement approval had been suitably evidenced within workflow within Business World.
- Purchase orders had been suitably raised prior to invoice tax date (date services / works / goods provided) in most cases. Where purchase orders had been issued after that date, the delay was minimal.
- Invoice details agreed to the corresponding purchase order and goods receipting (per Business World) in all cases tested.
- 3-way match re Purchase Order, Goods Receipting and Invoice / payment amounts are understood to be auto-matched by the system per workflow once a PO is raised, receipting undertaken, and invoice registered within Business World.
- A separation of duties was suitably in place and evidenced in all cases tested regards ordering, goods receipting and authorisation.
- For the No Purchase Order invoices / exception payments tested, payments had been appropriately approved in accordance with the Scheme of Delegation.
- Sundry creditor payments suitably agreed to supporting documentation.

Payment runs / CHAPS

- Payments made via CHAPS (Telegraphic Transfer) processes agreed to supporting information regarding details and amounts.
- Reconciliation of Business World payment run reports to bank statements showed that payments had been made accurately and completely.

Supplier records new and amended

- Business World workflow is used for the customer amendment forms, includes approval stages.
- Business World is used to process supplier amendment forms.

Spreadsheet uploads

- Sampled transactions processed via uploading spreadsheets directly into Business World were confirmed as accurate.

Findings and recommendations

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

1. Purchase requisitions / orders and invoices

Findings:

Invoices (with purchase orders)

From our testing on a sample of 10 transactions, we noted:

- In six cases, goods receipting was undertaken after receipt of invoice or the invoice tax date.
- One purchase order was raised after the invoice tax date (30 days respectively).

Invoices (with no purchase orders)

From testing of five transactions, we noted one instance where payment was made 39 days after the invoice date.

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:

Wherever possible:

- Purchase orders should be raised prior to receipt of the invoice or the invoice tax date.
- Goods receipting should be promptly undertaken following the receipt of goods / services.
- Invoices should be paid within 30 days to avoid any potential late interest payment charges.

Agreed Actions:

Officers will be reminded to promptly process purchase orders, goods receipting and invoice approvals.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 March 2023

2. CHAPS / TT Payments

Findings:

From an examination of five CHAPS payments (same day Telegraphic Transfer payments) totalling £6,304,896, whilst details of payments made agreed to supporting information, we found none of the forms had been fully completed.

Further, we found:

- In four cases, finance check sections on the CHAPS forms had not been completed.
- Sections relating to budget manager certification had not been completed. However, additional email approval was provided in one case.

In the remaining three instances:

- Additional supporting approval was not evident for two payments.
- A supporting grant funding letter, signed by Section 151 officer was provided for one payment.
- The HSBC bank authorisation section had not been completed in four instances.
- A separation of duties could not be confirmed due to incomplete forms (as above).

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:

- CHAPS / TT forms should be fully completed and evidenced as approved to show a separation of duties in accordance with the Scheme of Delegation.
- Approvals for CHAPS payments, whether by email or TEAMS, should be recorded on the form or should be easily retrievable and provided for inspection on request.
- Checks to confirm that prices are correct, goods had been received and checked should be certified within the relevant section by a responsible officer within a service area.
- Incomplete and / or unauthorised forms should be returned for remedial action by the initiating service area to ensure payments are only made based on fully completed and authorised forms.

As previously recommended in our 2021– 22 audit report, a review should be undertaken of the current processes for actioning payment via CHAPs forms to ensure they are fit for purpose, facilitate compliance with Financial Procedure Rules and provide a robust audit trail.

Agreed Actions:

Going forward all TT payment documentation will be fully completed.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 March 2023

3. Payment runs**Findings:**

We found from an examination of five payment runs that whilst the BACS report and bank account amounts agreed, evidence of approvals were not always evident throughout the process (e.g. SU08, BACSTEL-IP, TEAMS Channel).

We noted that for the five payment runs sampled, for:

- SU08 – One transaction approval was not evidenced
- BACSTEL-IP (TEAMS Channel) - Four approvals were not evidenced
- BANK Approval (TEAMS Channel) - Four approvals were not evidenced

Previous recommendations had been made regarding the proper verification and processing of bank detail changes to prevent and detect fraud in our 2020-2021 and 2021-2022 audit reports.

Implications:

- The WMCA's systems and records may not sufficiently evidence the checks and controls in operation to clearly demonstrate actions taken in the event of query, challenge, or fraud.

Recommendations:

Approvals or evidence of approvals throughout the payment run / BACS process should be retained and be easily retrievable for review.

Agreed Actions:

Bacs Payments approvals will be recorded and documented within the Confirmation File.

Responsible Officer:**Target Date:**

| | |
|---|--|
| William Godden – AP/AR Manager | 31 March 2023 |
| 4. New / Amended Supplier Records | |
| <p>Findings:</p> <p>We found from an examination of 10 supplier records:</p> <ul style="list-style-type: none"> • The supplier records had been accurately and completely established. However, we noted: <ul style="list-style-type: none"> ○ Secondary supporting documentation was not evident in nine instances. ○ In one instance, the order acknowledgement (bank detail evidence provided) did not agree with the bank details recorded on the system. ○ The company letterhead was not evident on one letter. ○ Three signatory issues found: <ul style="list-style-type: none"> ▪ In one instance the letter had been signed by the Chief Finance Officer whose name did not appear on Companies House records. ▪ one signature had been copied / pasted onto the letter. ▪ one signature had been typed. • Supporting evidence i.e., the WMCA Bank Details Log, new supplier / amended supplier workflow or customer amendment workflow was not observed therefore checks regarding completion and checks undertaken could not be confirmed. <p>We note recommendations to address new / amended supplier issues had been previously made in our 2020-2021 and 2021-2022 audit reports.</p> | |
| <p>Implications:</p> <ul style="list-style-type: none"> • The WMCA's systems and records may not sufficiently evidence the checks and controls in operation. • It may be difficult to demonstrate actions taken in the event of query, challenge or potential fraud. | |
| <p>Recommendations:</p> <ul style="list-style-type: none"> • 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. This would provide a clear audit trail when records are requested for query / inspection. • Documents / letters received that do not comply with WMCA processes should be challenged with the supplier, recorded on the Bank Details Log and further appropriate documentation (e.g. letterheaded / signed) should be obtained. | |
| <p>Agreed Actions:</p> <p>All communications will be attached to the account to evidence that full checks have been completed.</p> | |
| <p>Responsible Officer: William Godden – AP/AR Manager</p> | <p>Target Date: 31 May 2023</p> |
| 5. AP Spreadsheet Uploads | |
| <p>Findings:</p> <p>We found from a sample of five spreadsheet uploads that the spreadsheets were fully completed and budget manager approval was evidenced prior to uploading. However, we noted that one budget manger approved a value that was greater than the approval levels within the Scheme of Delegation.</p> | |
| <p>Implications:</p> <p>Incorrect levels of authorisation.</p> | |

Recommendations:

Approval in accordance with the Scheme of Delegation should be suitably evidenced.

Agreed Actions:

A request will be made for the Delegation of Budget Holder Values to be reviewed and updated.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 March 2023

Account Receivable 2022 – 2023

Key issues identified

We noted from sampling unpaid invoices that a record evidencing action taken to recover the debt was suitably recorded and reported. However, one of the unpaid debts related to a training provider that had gone into liquidation owing a large debt. The AP/AR Manager agreed that consideration would be given to raising periodic invoices as this would provide an opportunity to monitor trends in unpaid debts and would reduce the risk of significant loss. This would also provide an opportunity to discuss suspension or stopping the use of such providers. However, this would need to be discussed with budget managers.

We found no significant issues and identified 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:

Debtor invoices and credit notes

- Adequate procedures were in place for raising and authorising sales invoices and credit notes.
- Sample testing identified that invoices had only been raised once and had been suitably authorised by a budget manager.
- Credit notes sampled were against the appropriate invoice.
- Use of workflow within Business World ensured there was a separation of duties and that the correct authorisations were in place.

Receipts

- Sound procedures were in place for identifying income received.
- Receipts were properly identified and deposited intact.
- Income received was suitably recorded in Business World.

Aged debts and write-offs

- Adequate debt recovery procedures, including delegations for the approval of write-off's had been established.
- Sampled aged debts had been suitably chased and a record of action taken had been retained.

Suspense

- Unallocated (suspense) items were promptly reviewed and cleared.

New and amended customer details

- Adequate procedures were in place for setting up and amending new customers.

Previous 2021-22 Recommendation (Green rating)

The recommendation made in 2021-22 has been implemented.

Debt recovery procedures had been suspended due to the impact of Covid-19. However, recovery action had recommenced. We noted that 9 of the 10 invoices sample tested during the 2022–23 audit had been paid/were paying by instalments.

Budgetary Control 2022-2023

Key issues identified

We found no major issues in this area and identified several areas of good practice, 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:

- Employees who are involved with budget planning were issued with detailed budget guidance together with a timetable for the 2022 - 2023 budget setting process to assist with budget planning.
- The consolidated budget was approved by the WMCA Board prior to the start of the financial year on 11 February 2022 which corresponded to the budget set in Business World.
- Budget setting process were in place involving budget managers, heads of service and directors.
- Financial reporting to the WMCA Board took place on consolidated and detailed budgets, with reports undertaken on a timely basis during the period under review, which 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.
- Cost centres were allocated to responsible budget managers.
- New cost centres and account codes set up in the finance system were subject to an approval process.
- Budgets were being reviewed and monitored at Strategic Leadership Team meeting each month.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency
Green

1. Audited accounts not published by the required date

Finding:

The required date under the Audit & Accounts Regulations 2015 for audited 2021 /2022 accounts to be published on the WMCA website was the 30 November 2022. The audited accounts were not published by this date (and remained unpublished at the date of review 14 December 2022), due to resource capacity constraints on the part of the external auditors. In accordance with the regulations, a notice was published on the WMCA website stating the reasons why the audited accounts had not been published.

Implication:

Failure to publish audited accounts in accordance with regulations may result in reputational damage to the WMCA.

Recommendation:

Audited 2021-2022 accounts should be published at the earliest opportunity. Further, assurances should be sought from the external auditors that adequate resources will be in place for next year's audit.

Agreed action:

Audited 2021-2022 accounts will be published at the earliest opportunity. Assurances will be sought from the external auditors that adequate resources will be in place for next year's audit.

Responsible Officer: Louise Cowen - Financial Controller

Target Date: 31 March 2023

General Ledger 2022 - 2023

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:

- The General Ledger was reconciled to the payroll feeder system on a regular basis.
- Control accounts were up to date and had been reconciled over the period examined.
- 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.
- Opening balances for 2022/23 had been correctly input into Business World and were in accordance with closing balances for 2021/22.
- Cost centre and account codes were accurately set up and approved.
- Journals were authorised in accordance with the scheme of delegation and access controls and are processed on a timely basis.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency
Green

1. Reconciliation of debtor and creditor balances to the general ledger

Finding: Accounts Payable (AP) and Accounts Receivable (AR) reconciliations of the total of individual debtor and creditor balances to the GL control accounts were found to be undertaken. However, it was noted that unlike the AR reconciliations, the AP reconciliations did not follow a structured format.

Further for both the AP and AR reconciliations, the name of person completing the reconciliations and certification by a second reviewing person was not evident.

Implication: The absence of a structured format for the AP reconciliation and identification of the person undertaking the AR and AP reconciliations provides a poor audit trail to evidence the checks undertaken.

The absence of a certified check by a second person increases the risk of errors going undetected.

Recommendation: The AP reconciliations should follow the same structured format that the AR reconciliations follow.

Both the AP and AR reconciliations should state the name of person completing the reconciliations and certification by a second reviewing person.

Agreed action: The AP reconciliations will follow the same structured format that the AR reconciliations follow.

Both the AP and AR reconciliations will state the name of person completing the reconciliations and certification by a second reviewing person.

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| Responsible Officer: William Godden – AP/AR Manager | Target Date: 31 January 2023 |
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2. Adverse / opposite individual debtor and creditor balances

Finding: Several opposite debit entries on the creditors, and credit balances on the debtors had not been identified and reviewed for appropriate remedial action. On 31 July 2022 these totalled:

Debtors - £207k

Creditors - £9.6m (includes an individual balance of £8.8m which was due to a timing difference).

Implication: The financial records will not represent an accurate position if individual debtor and creditor balances are opposite / adverse.

Recommendation: All current adverse balances should be investigated and resolved. Going forward as part of monthly reconciliation processes individual balances should be reviewed and resolved.

Agreed action: All current adverse balances will be investigated and resolved. Going forward as part of monthly reconciliation processes individual balances will be reviewed and resolved.

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| Responsible Officer: William Godden – AP/AR Manager | Target Date: 31 January 2023 |
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Treasury Management 2022-2023

Key issues identified

We found no major issues and identified several areas of good practice as detailed below. Some minor improvements regarding record keeping for reconciliations and supporting information for daily treasury transactions have been discussed with the Lead Treasury Accountant.

Examples of good practice identified

Policies

- WMCA had adopted the CIPFA Code of Practice on Treasury Management in Local Authorities.
- The annual Treasury Management Strategy and Treasury Policy Statement was approved by WMCA Board, following endorsement by the Audit, Risk and Assurance Committee (ARAC).
- The Treasury Management Practices were reviewed for adequacy by ARAC.
- Prudential Indicators were appropriately presented and approved by the WMCA Board.
- WMCA demonstrated good awareness of the new CIPFA Code of Practice on Treasury Management in Local Authorities (2021) which needs to be introduced from 1 April 2023. WMCA are working towards this.
- Treasury Management training was provided to ARAC members.

System

- 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 provided.
 - 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.
- Evidence of discussions at the Treasury Management Group were observed for a sample of new borrowings.

Reconciliation

- Daily reconciliations between the bank statements and cashflow record were completed by the Treasury Accounting Assistant.
- Monthly reconciliations between Treasury Live and the General Ledger in Business World are undertaken. A sample of three reconciliations confirmed that they were undertaken on a timely basis. A recent change to procedures also captures the independent review of the reconciliations.

Monitoring and Reporting

- A report on the outturn for 2021-2022 was presented to WMCA Board.
- A report on mid-year treasury management activities and details of external investments for 2022-23 was prepared for presentation to ARAC in November 2022. Due to reasons beyond the control of the Treasury Management team, this meeting will now not be convened. However, it is understood that the report will be presented at the next available ARAC meeting, and then subsequently presented to WMCA Board.
- Both the outturn report for 2021-2022 and the draft mid-year report for 2022-2023 confirmed compliance with various Treasury Management Indicators, CIPFA's Code of Practice and WMCA's Treasury Management Strategy.

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.

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| Final issued | 3 February 2023 |
| ARAC reporting date | |
| ARAC meeting date | |