

West Yorkshire Combined Authority

Internal Audit Annual Report and Opinion 2016/17

Background

UK Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The results of work undertaken within the Annual Audit Plan are designed to support the opinion provided in the Annual Internal Audit Report.

Information

Annual Reporting Process

Management are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during the course of the year and seeks to:

- Provide an opinion on the overall adequacy and effectiveness of West Yorkshire Combined Authority's (WYCA) framework of governance, risk management and control.
- Provide a summary of the audit work from which the opinion is derived, including reliance placed on work by other service providers.
- State the level of conformance with the UK Public Sector Internal Audit Standards and comment on the results of the Quality Assurance and Improvement Programme.

Scope and Purpose of Internal Audit

WYCA's statutory responsibilities for maintaining an adequate and effective Internal Audit function are set out under the Accounts and Audit Regulations (2015). The Regulations require that WYCA must:

- undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control;
- make available such documents and records necessary for the purposes of the audit; and
- make available such documents and records necessary for the purposes of the audit; and
- supply information and explanation as considered necessary; and
- at least once in each year, conduct a review of the effectiveness of its internal audit.

The proper internal audit practices are those defined in the Public Sector Internal Audit Standards (PSIAS). The PSIAS set out a definition of internal auditing, a Code of Ethics and mandatory standards for all internal auditors working in the UK public sector. Auditors are also required to adhere to the Code of Ethics of their professional bodies where appropriate. These are the standards to which the Internal Audit service works, with detailed requirements specified in WYCA's internal audit manual.

Independence of Internal Audit

Internal audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the WYCA. The work of internal audit forms part of the organisation's overall assurance framework providing independent and objective assessment on governance, risk management and internal control. Throughout 2016/17 the Internal Audit function has remained organisationally independent. This is supported through the Internal Audit Charter and a risk-based audit plan being approved by WYCA in April 2016.

How Internal Control is Reviewed

Internal Audit have developed a risk-based approach to delivering the audit function. References have been made to WYCA's audit universe risk profile which was used to form the basis of internal audit's operational plan.

The review process draws on key indicators of risk to the organisation and attempts to ensure that suitable audit time and resources are provided for these areas. Factors used in assessing risk include financial materiality, legislative requirements, previous audit experience, and the potential for fraud. This risk-based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the internal control environment.

Annual Governance Statement (AGS)

The Accounts and Audit Regulations establish the requirements related to systems of internal control and the review and reporting of those systems. Accordingly, WYCA needs to have in place a process for establishing, maintaining and reviewing the system of internal control and risk management.

CIPFA/SOLACE have produced a governance framework for the creation of an Annual Governance Statement (AGS). This was updated in 2016 and has been adopted and applied as proper practice by WYCA.

The opinion on governance, risk and internal control provided by Internal Audit, based upon the risk - based audit plan, is one of the key elements to consider when compiling the AGS.

Scope of Internal Audit Opinion 2016/17

In providing our annual audit opinion, it should be noted that assurance can never be absolute. The most that internal audit can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work in the financial year 2016/17 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, the following matters have been taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2017.
- The results of follow-up reviews of action taken to address audit recommendations.
- Whether or not any significant recommendations have not been accepted by management and the consequent risks.
- The effects of any material changes in WYCA's objectives and activities.

Annual Opinion 2016/17

From the work undertaken during the financial year 2016/17 and taking into account other sources of assurance, Internal Audit have reached the opinion that WYCA's framework of governance, risk management and control is operating adequately and that there are no outstanding significant issues arising from the work undertaken by Internal Audit at the time of writing this report.

In reaching our opinion the following key factors were considered:

Risk Management

Risk Framework

During the period a review of WYCA's risk management framework was undertaken. Whilst recognising that progress had been made in the identification and development of risk appetite it was established that further work is required in identifying and aligning strategic risks to corporate objectives. In addition, WYCA should determine and document all risk management processes in operation throughout the organisation and develop risk information reporting escalation processes.

Business Continuity/Disaster Recovery

It was established that whilst elements of business continuity and disaster recovery arrangements are in place, this structure is limited to outlining the response to an emergency. It was acknowledged that business continuity and disaster recovery is a substantive subject which requires a new pro-active and pre-emptive organisational approach.

Governance

Corporate Governance

WYCA demonstrates how it meets the principles of governance through the review and annual production of its Code of Corporate Governance.

It is recognised that the organisation is responding to significant changes in relation to its purpose, accountability, governance and stakeholders. Examples of this include the appointment of an Information Governance Officer and the completion of a management review of corporate governance arrangements, including interfaces with structures operated by the Leeds City Region Local Enterprise Partnership, the development of policies to comply with the introduction of the General Data Protection Regulations and the commencement of a management review of information governance within WYCA.

Transparency

A review was undertaken which assessed the level of compliance with the principles provided by the Department for Communities & Local Government within the Transparency Code (2015).

It was established that overall WYCA complies with these requirements although some changes were identified to improve the availability and frequency of data published.

Internal Control

Data Security/Data Protection

A follow up review of internal audit recommendations originally provided in 2015/16 identified a number of key issues which were not fully resolved. These included the documentation of business critical systems, improvements to the monitoring and reporting of key security settings, the development of ICT back-up and recovery policy and the performance of periodic test restores of key programmes.

Programme/Project Management Assurance Framework

Internal Audit have provided opinion and assurance concerning the following programmes and projects;

- Skills Capital Funding
- Apprenticeship Grant for Employers
- Housing & Regeneration
- Superfast Broadband
- Growing Places Fund
- Business Growth Programme

The results of these reviews highlighted a number of common themes associated with programme and project management arrangements. Consequently, with the establishment of the Portfolio Management Office, WYCA have introduced an assurance framework for assessing the eligibility, development, delivery and evaluation of corporate programmes and projects.

Procurement Review

Opportunities to strengthen the control environment in respect of the monitoring of costs against approved tender values and the development of guidance for the submission of information required when submitting reports for the approval of tender awards were identified.

Third-Party Assurance

Metro Ticket Sales

WYCA offers Metro ticket sales through Rail ticket offices and through a network of retail outlets offering Payzone payment functionality. Under these arrangements,

organisations are required to periodically provide information relating to the value of sales, commissions and spoils.

A feature of the overall control environment is that these organisations operate robust systems to safeguard ticket income and that provide accurate information concerning sales transactions and levels of ticket stockholding.

For 2016/17, WYCA have received an assurance statement from Northern Rail in relation to the operation of key controls found within their processes which states that there were no significant issues or control weaknesses detected.

Additionally, a review of the systems which facilitate sales income and the provision of information relating to ticket transactions provided by Payzone was undertaken. This review concluded that income and related sales information was appropriately stated.

Treasury Management

Leeds City Council (LCC) provides treasury management and related financial services under the conditions of a service level agreement. Internal Audit has performed some limited testing of aspects of the processes operated under this agreement. In addition assurances provided by LCC, including the certification of financial information and the opinion issued by the council's own internal audit section were obtained and found to be satisfactory.

Summary of Whistleblowing Cases

Internal Audit continues to act as the primary contact point for WYCA's Whistleblowing Policy. Arrangements to improve accessibility to information and mechanisms to make protected disclosures are provided on WYCA's web site. In addition, information providing details of WYCA's anti-fraud, bribery and corruption arrangements and how to report concerns about suspected fraud and/or corruption were provided to employees.

Further information is provided within WYCA's Disciplinary, Conduct and Capability Policy and Procedure which contains guidance to employees where they suspect that bribery, fraud or corruption may be/have occurred.

During the period no referrals were made to Internal Audit.

Audit Performance

Conformance with PSIAS

A self-review of compliance with the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note has been undertaken. This has been delivered through the completion of the checklist for assessing conformance with the PSIAS and Local Government Application Note as produced by the Chartered Institute of Public Finance and Accountancy.

Overall Internal Audit complies with the requirements of the PSIAS and Local Government Application Note. However there are some areas where WYCA have accepted non-compliance with the standards or that require development.

Areas of Accepted Non Compliance

The self-review has identified two areas for which there is no associated action and by which Internal Audit are proposing to accept the residual risk. This is because after close analysis of the requirement and a review of current controls already in place, the implementation of an action plan to meet the requirement would be disproportionate. Existing controls in place are sufficient and operating well.

The two areas of non-compliance are:

- The Chief Executive does not undertake, countersign, contribute feedback to or review the performance appraisal of the Chief Audit Executive.
- Feedback is not sought from the Chair of the Governance and Audit Committee for the Chief Audit Executive's appraisal.

The performance appraisal of the Chief Audit Executive is undertaken by the Director, Resources in line with WYCA's development processes. This is considered as an adequate method of providing feedback on performance.

Areas for Action

2050 Coordination - Assurance mapping

The Chief Audit Executive has identified and assessed all areas of assurance within the audit universe. However, it is accepted that assurance mapping should be developed as organisational objectives are established and as part of the process of identifying and determining the approach to using all sources of assurance.

2110 Governance - Ethics

Internal audit have not performed a specific review of WYCA's ethics-related objectives, programmes and activities. The Chief Audit Executive will continue to monitor the level of audit risk in this area and update the Audit Plan to accommodate this work if this becomes necessary.

1210 Proficiency – CMIIA

The Chief Audit Executive is an experienced audit professional and a member of the Chartered Institute of Internal Auditors Heads of Internal Audit service. During 2017 he has applied for full CMIIA status.

Quality Assurance and Improvement Plan (QAIP)

The QAIP covers all types of Internal Audit activities and is designed to provide reasonable assurance that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code

of Ethics.

- Operates in an efficient and effective manner.
- Is adding value and continually improving Internal Audit's operations.

The self-review forms part of internal audit's Quality Assurance and Improvement Program, (QAIP). Other elements of the QAIP require audit assignments to be subject to a supervisory quality check to ensure that the objectives have been achieved and that recommendations made are consistent with the findings and evidence recorded. In addition, feedback questionnaires which ask managers to assess the overall performance of the audit, the auditor's approach, and the quality of the report are issued on completion of each individual review.

Continuing Professional Development

In a changing environment it is important that Internal Auditors are kept informed of the latest audit methodologies, changes in legislation as well as changes to the public sector arena so they can have the necessary skills and knowledge to fulfil their roles. Primarily, this is provided through the Institute of Internal Auditors professional briefings and WYCA's development review processes aligned with professional competences. This enables strengths and weaknesses to be identified and allows training to be focused on each individual's specific requirements.

Reporting

Arrangements for reporting on internal audit activities have continued through the Governance and Audit Committee. The Committee's primary roles are to advise WYCA in relation to financial management, internal audit arrangements, the statement of accounts, external audit arrangements and corporate governance matters.

Measures for the recording, reporting and follow-up of audit recommendations have continued through the use of Covalent, WYCA's corporate performance management system.

Performance Indicators

A range of performance indicators have been developed for Internal Audit based on costs for 2016/17 and other identified timescales.

	<u>Actual</u>	<u>Benchmark¹</u> <u>Average</u>
Cost Per Audit Day	£204	£286
Mainline Audit Days Per £m Turnover	1.13	2.71
Cost Per Auditor	£41666	£49373
Days Per Auditor	184	173
Sickness Days	0	5.6
FTE Auditors/Gross Turnover	125	67.24

Annual Audit Plan

Completion of audit reviews identified within the plan – Target	100%
Actual performance	96%

Client Feedback

Post audit client questionnaire ratings of “2” or better - Target	90%
Actual performance	88%

Issuing Reports

Internal Audit reports to be circulated within 5 working days of audit closure – Target	90%
Actual performance	82%

This data confirms that the Internal Audit function compares favorably against public sector benchmarks and is performing well against the targets set. However, it is recognised that the audit resource falls below the average benchmark for mainline audit days compared with turnover and the ratio of full time equivalent auditors. This situation needs to be carefully monitored to ensure that sufficient audit work can be undertaken to allow effective conclusions to be determined concerning the overall audit opinion.

¹ CIPFA auditing benchmark comparator - 16 Authorities across the north of England

Client Feedback

As part of internal audit's commitment to ensuring the highest professional standards and to ensure that we are continually improving the quality of work produced, a customer satisfaction questionnaire is issued at the end of each audit assignment. The responses received have been analysed and indicate good scores in most criteria.

The cumulative results from questionnaires completed throughout 2016/17 are:

	Question	1	2	3	4
1	Communication prior to the audit work was appropriate and I was aware of visit dates and audit objectives.	6	5	1	
2	Throughout the audit process I was kept informed of the work being done and issues arising.	6	4	2	
3	Internal audit staff demonstrated a good understanding of the business and associated risks (or took the time to develop such understanding during the audit process).	5	6	1	
4	Internal audit staff demonstrated a pragmatic approach to developing solutions to issues identified during the audit.	4	6	2	
5	The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses.	4	5	3	
6	Internal audit staff acted in a professional manner throughout the assignment.	8	4		
Scale ; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 Strongly disagree					

Audit Plan 2016/17

Details of the work performed by Internal Audit in 2016/17 and audit opinions provided are set out below.

Further information concerning the definition of internal audit assurance opinion categories is provided in the appendix to this report.

Audit Area	Assurance	Opinion
Skills Capital Projects	Project management controls, authorisation of expenditure, review of business processes. Compliance with conditions of grant, evaluation of eligibility of claims.	Requires Improvement
West Yorkshire Broadband	Processes & procedures. Certification of expenditure. Compliance with funding agreements. Compliance with partnership agreements/claw back provisions	Requires Improvement
Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	Controlled
Transparency	Compliance with principles of the Local Government Transparency Code 2015	Controlled
Code of Corporate Governance	Arrangements to ensure compliance with applicable statutes and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation.	Controlled
Annual Governance Statement	Financial reporting including compliance with relevant standards and codes of corporate governance. The establishment, monitoring and reporting on the systems of internal control.	Controlled
ERDF & ESF Technical Assistance Project	Head of IA assurance. Periodic report and claim review and certification.	Substantial Assurance
Growth Deal – Economic Development	Scheme Evaluation Criteria (SAF) Gateway Review Compliance (SAF) Third-Party Assurances Certification of Expenditure Governance Arrangements – Consultation/Compliance	Requires Improvement
LTP	Head of IA assurance.	Substantial

Audit Area	Assurance	Opinion
	Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	Assurance
English National Concessions Travel Scheme (ENCTS)	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data. Validation rules for applicants to provide evidence of identity, residency. System is secure and backed up at frequent intervals with limited access rights. Awareness and communication of requirements of Concessionary Bus Travel Act.	Well Controlled
Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	Controlled
Business Growth Programme	Project management controls, authorisation of expenditure, review of business processes. WYCA expenditure - over £110k Compliance with SLA for schemes administered by LCC – less than £100k	Requires Improvement
Resource Efficiency Fund including ESIF + LGF	Processes & procedures, assessment of grant applications Compliance with funding agreements	Substantial Assurance
Apprenticeship Grant	Processes & procedures, assessment of grant applications Compliance with funding agreements	Requires Improvement
Central Heating Fund	Processes & procedures, assessment of grant applications Compliance with funding agreements – provided through 3 rd party	Substantial Assurance
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	Substantial Assurance
Growing Places Fund	Administration of loans, evaluation criteria and	Requires

Audit Area	Assurance	Opinion
	monitoring procedures.	Improvement
Housing & Regeneration Projects	Provision of funding for; Barnsley Town Centre, Kirklees Housing Sites and Northgate House.	Controlled
Contract Monitoring - CDM	Compliance with The Construction (Design and Management) Regulations 2015	Requires Improvement
Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements. Controls for smartcard transactions and use of smart data/provision of service monitoring information. Payzone sales system.	Requires Improvement
Transport Fund	Scheme evaluation – NTEM forecasts, compliance with WEBTAG Review of operation of Strategic assurance framework	Requires Improvement-
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e- procurement, purchasing cards.	Requires Improvement
Business Contingency/Disaster Recovery	Review of plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	Requires Improvement-
Fraud Awareness	Maintaining employees' awareness of WYCA's counter- fraud arrangements.	Controlled
Smart Card & Information Programme (SCIP)	Provision of independent, 3 line of defence programme assurance. (Smart transactions Web Customer Hubs and Service Experience (CHASE))	Controlled
Payroll & HR Records	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.	Controlled
Metro Travel Centre Operations	Ticket sales, stock, cash collection/handling security. Fraud prevention controls and associated back-office operations.	Controlled
Main Accounting –	Review of the operation of key controls	Well

Audit Area	Assurance	Opinion
General Ledger	including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	Controlled
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of supplier statements, BACS controls, and sub-contractors records.	Controlled
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	Requires Improvement
Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	Well Controlled
Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	Requires Improvement
Growth Deal - WY+Transport Fund	Head of IA assurance.	Substantial Assurance
Green Deal Communities Fund	Head of IA assurance. Periodic report and claim review and compliance with MOU with LCC.	Substantial Assurance
Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation, (RIDDOR).	Controlled

Adding Value

Throughout the year we have provided advice over and above the core objectives of giving internal control assurance and recommending effective systems improvements to management.

This included:

- Adding value through the strategic focus of internal audit and adopting a risk-based approach by linking work in the strategic audit plan to WYCA's corporate risks.
 - We identified changes to the original audit plan in response to changing priorities and activities undertaken in the year.
 - In undertaking our reviews we specifically focused on WYCA's own controls and the wider control environment, providing advice and examples of best practice.
 - We have assisted WYCA in the further development of risk management through consultation and a specific review of risk management and by consideration of risks as part of each individual audit assignment.
 - Undertaken work in addition to the Internal Audit Plan in relation to the development of governance, risk, systems and other project assurance activities.
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Appendix

Assurance Level	Definition
Well Controlled	<p>There is a robust control framework in place for the system.</p> <p>All necessary controls are in place and are operating effectively.</p> <p>Any recommendations made are low risk and relate to enhancements of existing controls.</p>
Controlled	<p>There is an acceptable control framework in place.</p> <p>Key controls are in place and operating effectively.</p> <p>Some changes to controls and how they operate would be beneficial.</p> <p>Recommendations made are moderate or a combination of moderate and low risk, including the development of existing controls, and do not relate to key controls.</p>
Requires Improvement	<p>Controls in place for some elements of the system are not always appropriate or effective or are not consistently applied.</p> <p>Recommendations made are of high or a combination of high and moderate risk concerning the operation of key controls.</p>
Poorly Controlled	<p>There is an inadequate control framework.</p> <p>Key controls are absent or not operating.</p> <p>The operation of the system is currently providing an unacceptable risk.</p> <p>Recommendations made are high risk concerning the operation of key controls.</p>