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**Report to:** Governance and Audit Committee

**Date:** 28 November 2017

**Subject:** Internal Audit Mid-Year Review

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## **1 Purpose**

- 1.1 To report the outcome of a mid-year review of the Internal Audit Plan 2017/18 and progress made by WYCA in addressing key control weaknesses identified as a result of audit work undertaken.

## **2 Information**

- 2.1 The Internal Audit Plan was approved by the Governance & Audit Committee in April 2017. The Plan is designed to deliver work on the core financial systems, data systems and reactive and proactive counter-fraud and probity audits. This seeks to provide a level of assurance that the basic governance and control arrangements continue to operate effectively, minimising the risk of misappropriation, loss and error. The Plan does not include any provision for value added activities such as VFM reviews or any significant allowance for consultation.
- 2.2 The Plan identified a resource requirement which was slightly in excess of that which could be provided by the in-house team at the time of its development. However, it was anticipated that this position could be managed if the levels of contingencies within the plan were not fully required.
- 2.3 This report provides details of progress made to date in completing reviews within the Plan, considers the impact of changes to resourcing within the internal audit team, provides a forecast of the level of assurance which can be provided to WYCA in 2017/18 and evaluates progress made by management in response to key control weaknesses identified as a result of work performed.

### Resourcing

- 2.4 WYCA's internal audit team consists of an internal audit manager, responsible for the delivery of the function along with statutory responsibilities of the Authority's Chief Audit Executive; two internal auditors employed on a full time basis and one internal auditor on a fixed-term contract due to end in December 2017. The internal audit manager has made representations through WYCA's organisational development programme to secure all three internal auditor positions as permanent posts. However, at the time of writing this report, this structure has not been approved.

- 2.5 At the beginning of August 2017, one of the full time internal auditor posts became vacant, leaving the section with just one full time and one fixed-term internal auditor. This has meant that the number of audit days available has been reduced. WYCA have approved that as an interim measure this could be filled with another fixed-term appointment. The Internal Audit Manager is considering alternative options to enable the plan to be delivered whilst maintaining a sufficient body of audit work on which to base internal audit's opinion of WYCA's control environment, risk management and governance arrangements in operation throughout 2017/18.
- 2.6 The feasibility of partnership working with other Local Authority internal audit suppliers has been considered however, WYCA's team is too small to participate in any reciprocal arrangements and therefore even if spare capacity can be identified by district partners, services would be supplied on a contract/cost basis. In addition, given the nature of relationships between WYCA and the District Authorities in relation to funding and the delivery of schemes and other related services, there are potential issues of competing priorities and problems concerning conflicting accountabilities and reporting responsibilities.

#### Internal audit plan 2017/18

- 2.7 A review of the assignments contained within the plan has indicated that there is an opportunity to defer work into 2018/19. This is because there has been a lower than anticipated level of activity through the sector skills funding stream, thus reducing exposure to materiality risk in 2017/18. It is estimated that deferment of this review could generate a saving of 12 days.
- 2.8 Delays in the performance of counter-fraud testing has been experienced due to technical issues associated with the operation of data analytics software. It is envisaged that this will be undertaken later in the year once these issues are resolved.
- 2.9 A number of reviews are assigned to external contractors. These include IT system penetration testing, data hosting and data sharing arrangements. Budget provision for this work is not directly controlled by internal audit in 2017/18. This is leading to delays in procuring these services.
- 2.10 It has been necessary for internal audit to undertake work which was not originally included within the approved plan. This has been delivered through the utilisation of part of the general resource contingency.
- 2.11 Further information concerning progress made, significant issues arising and a forecast of resource required to complete the plan is provided in the internal audit progress report, agenda item 7, appendix 2 of these papers.

Progress in implementing key internal audit recommendations resulting from work undertaken in 2016/17

2.12 A number of audit assignments performed in 2016/17 resulted in an audit opinion of “requires improvement”. A review has highlighted that whilst sufficient progress has been made by management to address these control weaknesses, there are a small number of issues which remain outstanding at the time of writing this report. These weaknesses are provided in the table below along with an assessment of the risk to WYCA.

Audit Review	Recommendation	Risk	Progress
Yorcard	Disaster Recovery. WYCA should, as a key stakeholder, review and sign-off documentation regarding disaster recovery/business continuity arrangements in place for services provided to WYCA by Yorcard.	Disaster recovery arrangements are not sufficiently adequate to protect WYCA’s interests leading to service interruption, data loss and negative publicity.	Due Date: 8/7/16  Completion: 80%  Note: Yorcard have verbally provided details of their business contingency arrangements. However, this now needs to be formally reviewed and signed-off by WYCA.
Health & Safety	Emergency Evacuation Procedures. That emergency evacuation procedures are designed and tested regularly to ensure they are appropriate for each site. These procedures to be readily available at each site and centrally on the network drive.	Emergency evacuation procedures are not appropriate and are not accessible.	Due Date: 30/6/17  Completion: 80%  Work is underway to update procedures to ensure they reflect latest advice on bomb and fire evacuations from the bus stations. Current procedures are stored locally on site.
Risk Management	Strategic Corporate Risks. A corporate risk register must be produced to reflect	Failure to adequately demonstrate strategic risk	Due Date: 31/7/17  Completion: 85%

	the key strategic risks to the Authority. The corporate risk register should be regularly reviewed and reported to the Governance & Audit Committee.	management activity.	Note: This is the subject of agenda item 11 of these papers.
Business Growth Programme	Evolutionary System User Access Rights. That appropriate user access privileges are enforced and that controls are applied to detect changes to data held and to maintain the integrity of data held. That user system access rights be formally recorded.	Risk of breach of data protection requirements and risk of fraud or error.	Due Date: 30/6/17 Completion: 90%
Skills Capital	WYCA Document Retention. WYCA should develop and communicate a corporate document retention policy	WYCA fails to comply with statutory requirements for the retention of documentation.	Due Date 31/1/17 Completion 95% Retention guidelines drafted and approved.

### **3 Financial Implications**

- 3.1 Revenue funding is secured in 2017/18 in respect of the Internal Audit Manager, two full time Internal Auditors and one Internal Auditor on a fixed-term contract to 31/12/2017.

### **4 Legal Implications**

- 4.1 The Accounts & Audit Regulations (2015) require the Authority to maintain an adequate and effective internal audit function.
- 4.2 Public Sector Internal Audit Standard, PSIAS, 2030 requires the Chief Audit Executive to ensure that internal audit resources are appropriate, sufficient and effectively deployed.

## **5 Staffing Implications**

- 5.1 The Audit Plan requires a resourcing input of 552 audit days. The approved staffing establishment for WYCA's internal audit function is 3 full time posts plus 1 fixed term contract to 31 December 2017.

## **6 External Consultees**

- 6.1 None.

## **7 Recommendations**

- 7.1 That the Governance & Audit Committee note the level of resource required to complete the Audit Plan in 2017/18.
- 7.2 That the risks associated with weaknesses identified in section 2.12 of this report are considered and that WYCA's management be required to now complete measures to mitigate these matters.

## **8 Background Documents**

- 8.1 None.