

**West Yorkshire Combined Authority  
Internal Audit Service**

**Public Sector Internal Audit Standards  
External Assessment**

**FINAL REPORT**

**Completed by Julie Winham (CMFIIA)**

**Date of Issue: 9<sup>th</sup> April 2019**

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**Circulation:**

Ben Still, Managing Director

Members of the Senior Leadership Team

Andy Clayton, Chair of the Governance and Audit Committee

Angela Taylor, Director of Resources

Russell Gott, Internal Audit Manager

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### **1. Introduction**

- 1.1 This report provides the Director of Resources and other key stakeholders with details of the recent external assessment of West Yorkshire Combined Authority's Internal Audit activity against the Public Sector Internal Audit Standards (PSIAS). These standards require an external review of the Internal Audit activity at least once every five years by a qualified independent reviewer.
- 1.2 This report has been discussed initially with the Internal Audit Manager on the 12th March 2019 and subsequently agreed with the Director of Resources. The results of this External Assessment will be reported to the Combined Authority's Senior Leadership Team (SLT) and the Governance and Audit Committee.
- 1.3 The external assessment builds on the internal self-assessments which are reported to the Governance and Audit Committee in the Service's Annual Internal Audit Report along with the Review of Internal Control and Effectiveness of Internal Audit Report.
- 1.4 The timing of the external assessment coincides with the Combined Authority's own fundamental review of the Internal Audit Service. A Business Case has been prepared which outlines the proposed changes in order to ensure that the Service effectively and robustly supports the evolving organisational assurance requirements and values of the Combined Authority. The Business Case recognises that opportunities exist to enhance the Service in order to provide more effective independent and objective assurance on the activities of the Combined Authority.
- 1.5 It will therefore be important that the results and agreed actions arising from this external assessment are utilised alongside the Business Case in order to enhance the service provided to key stakeholders accordingly.

### **2. Scope and Methodology**

- 2.1 The scope and methodology for the external assessment was agreed by the Governance and Audit Committee on the 1<sup>st</sup> November 2018.
- 2.2 The external assessment has been undertaken by an independent Internal Audit Consultant who is a Chartered Auditor with over 25 years management experience in Internal Auditing.
- 2.3 The external assessment was conducted in conformance with the PSIAS using a combination of enquiry, observation and sample testing techniques.
- 2.4 The focus of the external assessment was to review the degree of compliance that the Combined Authority's Internal Audit activity has with the PSIAS, and to consider and identify any possible areas for service improvement.
- 2.5 The external assessment required an independent desktop review of Authority's own self-assessment against the PSIAS, structured interviews to gain an insight into how the Combined Authority Internal Audit Service operates

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and how they adhere to the Standards. In addition, the external assessment included a review of three Internal Audit reports which were selected by the Assessor. Appendix A provides a list of the interviewees along with details of the audit reports examined.

### **3. Opinion as to Conformity to the PSIAS**

#### **3.1 The overall opinion by the Assessor is that West Yorkshire Combined Authority's Internal Audit activity "Generally Conforms" with the Definition of Internal Auditing, the Code of Ethics and the Public Sector Internal Audit Standards.**

3.2 The guidance issued by the Institute of Internal Auditors suggests a scale of three ratings: "Generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that the Internal Audit activity has a Charter, policies and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the Internal Audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the Internal Audit activity from performing adequately in all or in significant areas of its responsibilities.

### **4. Service Improvement Opportunities**

4.1 A detailed list of conformance against the individual professional standards is included at Appendix B.

4.2 The report identifies a number of observations made that the Governance and Audit Committee, SLT and the Internal Audit Service may wish to consider in terms of the future development of the service. These are outlined in Appendix C.

4.3 The fundamental finding arising from the External Assessment relates to the requirement to develop a Quality Assurance Improvement Programme along with an agreed action plan which includes the necessary actions, assignees and timescales for completion of the required actions (Standard 1320). This is noted at Appendix B under the column headed "DNC".

Other significant findings arising from the External Assessment are noted at Appendix B under the column headed "PC" and are as follows:

- (i) The Audit Charter requires amending in order to ensure that it meets the requirements of the Standards. In particular, the requirement to include within the Charter reference to the non-audit duties of the Internal Audit Manager (Standard 1000).

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- (ii) The Internal Audit Manager does not currently hold a professional qualification such as the CMIIA (Standard 1210).
  - (iii) An assurance framework has not been defined in order to identify and determine the approach to using other sources of assurance. In addition, a significant element of the audit plan is devoted to cyclical routine audits which are generally well controlled. Consequently, the focus / emphasis of the current audit plan may not therefore be providing sufficient coverage for the likes of potential strategic or operational risks (Standard 2010 and 2050).
  - (iv) The level of resource imbalance between the audit universe and the actual audit plan is not reported to SLT and the Governance and Audit Committee (Standard 2030).
  - (v) Details of planned work not undertaken along with the rationale is not included within the Internal Audit Annual Report (Standard 2450).
- 4.3 It should be acknowledged that some of the deficiencies go beyond the control of the Internal Audit Service and result in recommendations to senior management of the board of the organisations.
- 4.4 Any developments need to be considered in the context of how they will 'add value' with the available resources both to the Internal Audit Service and to the Combined Authority as a whole. It needs to be recognised that the approach taken is the responsibility and decision of the Director of Resources, SLT, the Governance and Audit Committee and the Internal Audit Manager along with the application of their professional judgement in accordance with the Combined Authority's strategic objectives.

## **5. Summary of Positive Observations**

- 5.1 Based upon discussions with key stakeholders and appropriate documentary evidence, the following good practices were identified during the external assessment:
- (i) The Internal Audit team is helpful / supportive, adds value and contribute to the governance arrangements of the organisation.
  - (ii) The Internal Audit Service effectively contributes to the role of the Governance and Audit Committee by providing reliable and timely information along with professional support and advice.
  - (iii) Internal Auditors exercise due professional care when performing their audit duties.
  - (iv) The Internal Audit Service utilises a comprehensive Procedure Manual which helps the team deliver their obligations.

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- (v) Audit assignments are supported by sufficiently complete and detailed information required to support engagement conclusions and results.
- (vi) Appropriate evidence of supervision and review is retained for audit engagements.

### **6. Recommendations**

6.1 It is recommended that:

- (i) The Director of Resources, as sponsor of this external assessment, presents this report to members of the Senior Leadership Team and the Governance and Audit Committee – the key objective being to utilise the findings alongside the Business Case to help enhance the service provided to key stakeholders accordingly.
- (ii) The Director of Resources along with the Internal Audit Manager utilises the observations and actions to consider from the report to develop a Quality Assurance and Improvement Programme (QAIP) that is maintained as a live document.
- (iii) The Director of Resources presents the QAIP to the Governance and Audit Committee and thereafter reported periodically to monitor progress and the continued development of the Internal Audit Service.

### **7. Limitations**

7.1 The opinions and recommendations contained within the report are based on the examination of restricted samples of transactions and records together with discussions with the officers responsible for the processes reviewed.

### **8. Acknowledgements**

8.1 The independent assessor would like to express their thanks and appreciation to all those who provided support and assistance during the course of the assessment process.

**Interviewees:**

Ben Still, Managing Director,

Angela Taylor, Director of Resources

Russell Gott, Internal Audit Manager

John Sheard, Head of Finance

Andy Clayton, Chair of the Governance and Audit Committee

Mark Dalton, Engagement Manager – Mazars (Telephone discussion)

**Internal Audit Reports Examined:**

Risk Management (date issued: March 2018)

Gifts and Hospitality (date issued: September 2018)

Payroll (date issued: January 2019)

Conformance with the Individual Standards

Quality Assessment Summary	GC	PC	DNC
Overall Evaluation	Y		

Quality Assessment Summary by Major Standard		GC	PC	DNC
<b>1.</b>	<b>Definition of Internal Auditing</b>	Y		
<b>2.</b>	<b>Code of Ethics</b>	Y		
<b>3.</b>	<b>Attribute Standards</b>			
1000	Purpose, Authority and Responsibility		Y	
1100	Independence and Objectivity	Y		
1110	Organisational Independence	Y		
1111	Direct Interaction with the Board	Y		
1120	Individual Objectivity	Y		
1130	Impairment to Independence or Objectivity	Y		
1200	Proficiency and Due Professional Care (Sum of Standards 1210 - 1230)	Y		
1210	Proficiency		Y	
1220	Due Professional Care	Y		
1230	Continuing Professional Development	Y		
1300	Quality Assurance and Improvement Programme (Sum of Standards 1310 - 1320)		Y	
1310	Requirements of the Quality Assurance and Improvement Programme		Y	
1311	Internal Assessments	Y		
1312	External Assessments	Y		
1320	Reporting on the Quality Assurance and Improvement Programme			Y
1321	Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing	Y		
1322	Disclosure of Non-Conformance	Y		
<b>4.</b>	<b>Performance Standards</b>			
2000	Managing the Internal Audit Activity (Sum of Standards 2010 - 2060)		Y	
2010	Planning		Y	
2020	Communication and Approval	Y		
2030	Resource Management		Y	
2040	Policies and Procedures	Y		
2050	Coordination		Y	
2060	Reporting to Senior Management and the Board	Y		
2070	External Service Provider and Organisational Responsibility for Internal Auditing	N/A	N/A	N/A
2100	Nature of Work (Sum of Standards 2110 - 2130)	Y		
2110	Governance	Y		

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2120	Risk Management	Y		
2130	Control	Y		
2200	Engagement Planning (Sum of Standards 2210 - 2240)	Y		
2210	Engagement Objectives	Y		
2220	Engagement Scope	Y		
2230	Engagement Resource Allocation	Y		
2240	Engagement Work Programme	Y		
2300	Performing the Engagement (Sum of Standards 2300 – 2340)	Y		
2310	Identifying Information	Y		
2320	Analysis and Evaluation	Y		
2330	Documenting Information	Y		
2340	Engagement Supervision	Y		
2400	Communicating Results (Sum of Standards 2410 - 2440)	Y		
2410	Criteria for Communicating	Y		
2420	Quality of Communications	Y		
2421	Errors and Omissions	Y		
2430	Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'	Y		
2431	Engagement Disclosure of Nonconformance	Y		
2440	Disseminating Results	Y		
2450	Overall Opinion		Y	
2500	Monitoring Progress	Y		
2600	Communicating the Acceptance of Risks	Y		

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Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date
	<b>CODE OF ETHICS</b>		
<b>1.</b>	<b>Standards of Public Life</b>		
1.1	<p>The standards require Internal Auditors to have regards to the Standards of Public Life's Seven Principles of Public Life.</p> <p>The Internal Audit Manager has stated that Internal Auditors understand the principles, however, details of these requirements should be included within the Internal Audit Manual in order to help enhance understanding and obligations.</p>	<p>The Internal Audit Manual should be revised to include details of the Standards of Public Life's Seven Principles of Public Life in order to outline how they impact upon the conduct of Internal Audit staff.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Agreed, to form part of the annual review of the Internal Audit Manual.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Sept 2019</p>
	<b>ATTRIBUTE STANDARDS</b>		
<b>2.</b>	<b>Purpose, Authority and Responsibility (Standard 1000)</b>		
2.1	<p>The professional standards require that the Internal Audit Charter includes the following:</p> <ul style="list-style-type: none"> <li>• Defines the role of internal audit in any fraud-related work;</li> <li>• The arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.</li> </ul> <p>At West Yorkshire Combined Authority, the Internal Audit Manager is the designated Money Laundering Officer, Whistleblowing Officer and is responsible for developing the Fraud Response Plan. (Yet to be approved by SLT).</p> <p>It was noted that the Internal Audit Charter does</p>	<p>In order to provide for effective transparency and clarity regarding the role of the Internal Audit Manager, the Charter should be amended to include reference to the additional roles of the Internal Audit Manager i.e. Money Laundering Officer, Whistleblowing Officer and the development of fraud related policies.</p> <p>In addition, the Charter should include the arrangements for avoiding any potential conflicts of interest. For example, review and oversight of such audit work could be undertaken by the Director of Resources.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> To be updated once the Combined Authority (SLT) have approved the Counter-Fraud Policy.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Sept 2019</p>

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	<p>not include details of the aforementioned non-audit roles of the Internal Audit Manager along with the arrangements for avoiding any potential conflicts of interest.</p> <p>Without clarity / visibility of the Internal Audit Manager's role the potential exists that the independence of the role may be compromised.</p>		
2.2	<p>The standards require that the Charter recognises that Internal Audit's remit extends to the entire control environment of the organisation.</p> <p>It was noted that this requirement has not been addressed within the Charter to help demonstrate the value of what Internal Audit may bring to whole of the organisation's business activities in terms of risk management, governance and controls.</p>	<p>For the purpose of clarity and transparency, the Charter should be revised to recognise that Internal Audit's remit extends to the entire control environment of the organisation.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Audit Charter to be reviewed and updated.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Sept 2019</p>
2.3	<p>The Internal Audit Charter refers to the role of the Chief Audit Executive (CAE) being undertaken by the Head of Internal Audit. However, the role is performed by the Internal Audit Manager.</p> <p>The aforementioned issue gives rise to the risk that the Charter could be perceived as misleading.</p>	<p>For the purpose of clarity and transparency, the Charter should be revised to include the correct title of the designated officer performing the role of the CAE.</p> <p>During the course of this review the structure of the Service was under review and role profiles were being defined. Consequently, the Charter should be amended following approval of the updated role profiles, as appropriate.</p> <p><b>Priority: Medium</b></p>	<p><b>Response</b> Audit Charter to be reviewed and updated.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Sept 2019</p>
2.4	<p>The Charter refers to the authority of the Governance and Audit Committee which specifies</p>	<p>The authority regarding approval of the budget should be reviewed. The Combined Authority</p>	<p><b>Response</b></p>

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	<p>that the Internal Audit budget is approved by the Governance and Audit Committee.</p> <p>This statement is inaccurate in that the budget is currently approved by the Combined Authority with no consultation to allow appropriate input by the Governance and Audit Committee.</p> <p>In addition, the Internal Audit Manager is not responsible for the day to day management of the Internal Audit Service budget. Director of Corporate Services.</p> <p>The aforementioned issues may adversely impact upon the authority and independence of the Internal Audit activity.</p>	<p>should consider whether the authority and accountability of the Internal Audit activity would be enhanced by the following:</p> <ul style="list-style-type: none"> <li>• Ensuring the Governance and Audit Committee have an appropriate level of input and engagement regarding the derivation of the Internal Audit budget prior to approval by the Combined Authority.</li> <li>• Devolving the control and ownership of the Internal Audit Budget to the Internal Audit Manager. This may also help ensure that appropriate authority is assigned commensurate with inherent responsibility of the role.</li> </ul> <p><b>Priority: Medium</b></p>	<p>Technically the budget is approved by the Combined Authority. However, it is accepted that G and A should input to the budget before it goes to the CA and that day to day responsibility be assigned to the HoIA.</p> <p><b>Responsibility</b> Director, Corporate Services</p> <p><b>Timescale</b> May 2019</p>
2.5	<p>The Audit Charter has not been revised to incorporate the changes to the professional standards which were introduced from the 1st April 2017 e.g., to reflect the Core Principles for the Professional Practice of Internal Auditing along with the Mission of Internal Audit.</p>	<p>The Internal Audit Charter should be revised to reflect the changes to the professional standards.</p> <p>This would be led by the CAE with consultation as necessary over the more strategic aspects with SLT and the Governance and Audit Committee.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Audit Charter to be reviewed and updated.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Sept 2019</p>
<b>3.</b>	<b>Independence and Objectivity (Standard 1100)</b>		
3.1	<p>The professional standards require that any threats to objectivity are identified and managed at the</p>	<p>In order to enhance the objectivity of Internal Auditors it would be useful to extend the</p>	<p><b>Response</b> Agreed</p>

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	<p>Internal Auditor, engagement, functional and organisational levels.</p> <p>Although Internal Auditors are reminded annually to consider and disclose any perceived or real conflicts of interest, the assignment planning process does not include any prompt to consider whether completion of the audit may give rise to a potential conflict of business interest.</p> <p>Consequently, there is an increased risk that objectivity at auditor level may be compromised.</p>	<p>assignment planning checklist in order to prompt the Auditor to consider whether undertaking the audit would give rise to any real or perceived conflicts of interest.</p> <p><b>Priority: Low</b></p>	<p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> April 2019</p>
4.	<b>Organisational Independence (Standard 1110)</b>		
4.1	<p>The professional standards require that the Chief Audit Executive's (CAE) position within the organisational structure is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management.</p> <p>The existing structure of the Internal Audit team does not appear to contain sufficient Senior Management resource to enable the Internal Audit Manager to engage and influence at a more strategic level e.g. attendance at Board level meetings such as the Regulatory &amp; Compliance Board and the Scrutiny Committee.</p> <p>It is acknowledged that suggested changes to the Internal Audit engagement process have been outlined within a recent business case.</p>	<p>The corporate review of the Internal Audit Service should consider the CAE's position within the organisational structure in terms of how Internal Audit discharges and fulfils its role at a senior level.</p> <p>This should also consider the reporting lines with other assurance functions such as the Risk and Compliance / Scrutiny Board, Board meeting attendance and authority levels.</p> <p><b>Priority: Medium</b></p>	<p><b>Response</b> The recent review of the function seeks to allow capacity for the post of Head of Internal Audit to focus more on the strategic element of the role. This will be further developed over the coming year.</p> <p><b>Responsibility</b> Director Corporate Services</p> <p><b>Timescale</b> September 2019</p>

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5.	<b>Proficiency (Standard 1210)</b>		
5.1	<p>The standards require that the designated CAE should hold a professional qualification such as CMIIA/CCAB or equivalent.</p> <p>Although the Internal Audit Manager has a wealth of audit experience and applied for CMIIA status through the Institute's chartered by experience route, he does not currently hold the full CMIIA qualification.</p>	<p>The designated CAE should hold a professional qualification such as CMIIA or CCAB.</p> <p>This should help to provide the necessary confidence to the Governance and Audit Committee that the appointed CAE credentials include the appropriate knowledge/skill level required of the role.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> The HOIA will attend a "Chartered by Experience" assessment centre at the Institute of Internal Auditors in London.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> May 2019</p>
5.2	<p>The standards require that up-to-date job descriptions should exist that reflect roles and responsibilities and that personal specifications define the required qualifications, competencies, skills, experience and personal attributes.</p> <p>The draft Job Profile in respect of the Head of Internal Audit was examined. It was noted that the Job Profile did not include reference to the requirement for professional responsibilities to comply with the PSIAS.</p> <p>The Internal Audit Manager has acknowledged that this would be addressed as part of the current review of all job descriptions which is expected to be implemented by 1<sup>st</sup> April 2019.</p>	<p>Internal Audit Job Profiles should include clear reference to the PSIAS.</p> <p><b>Priority: Medium</b></p>	<p><b>Response</b> Role profiles will be developed as part of the organisational development process</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> May 2019</p>
5.3	<p>The professional standards require that the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required</p>	<p>The required level of IT resource should be procured as soon as possible.</p>	<p><b>Response</b> Agreed</p>

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<b>Ref</b>	<b>Observations</b>	<b>Action to Consider / Priority</b>	<b>Management Action / Responsible Officer and Implementation Date</b>
	<p>to perform its responsibilities.</p> <p>It has been acknowledged within the recent Internal Audit Business Case that the activity would benefit from a specialist IT resource in order to evaluate ICT security risks.</p> <p>The Governance and Audit Committee and SLT are aware of this issue via the Emerging Audit Plan Report and Final Audit Plan documents.</p> <p>However, the additional specialist resource has not yet been engaged / procured in order to effectively audit IT related risks / activities.</p>	<p>Resource levels should be monitored in order to ensure that the level is sufficient and that the work performed provides value for money and meets the needs of the business.</p> <p><b>Priority: Medium</b></p>	<p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> May 2019</p>
<b>6.</b>	<b>Internal Assessments (Standard 1311)</b>		
6.1	<p>The standards require that internal assessments include ongoing monitoring of the internal audit activity which includes routine quality monitoring processes. Although quality performance indicators are included within the Internal Audit Annual Report, quality performance related information is not included within the regular progress reports to the Governance and Audit Committee.</p> <p>In addition, the annotated comments provided by auditees are not routinely reported to the Governance and Audit Committee. However, the Assessor was informed that that any significant feedback would be included within the Internal Audit Annual Report.</p>	<p>In order to enhance the visibility of the results of quality monitoring the feedback from clients should be included within the Internal Audit Progress Report along with any annotated feedback details.</p> <p><b>Priority: Medium</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> July 2019</p>

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6.2	<p>The standards require ongoing performance monitoring which includes comprehensive performance targets. It was noted that such performance related information does not include the percentage of recommendations implemented by the agreed due date.</p> <p>This issue is reinforced as at the time of the external assessment several audit report recommendations had remained outstanding for a relatively long period of time.</p>	<p>In order to provide for a more robust and transparent performance monitoring system, performance related information should include the percentage of recommendations implemented by the agreed due date.</p> <p><b>Priority: Medium</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> July 2019</p>
6.3	<p>A performance measure is utilised to measure the number of days taken to issue the final report from the date of the post audit meeting / closure of the audit report.</p> <p>A target of 90% of audit reports are expected to be issued within 5 days of the post audit meeting / closure of the audit report. The 2017/18 Annual Report states that actual performance fell short of expected standard which equated to 72%.</p> <p>Stakeholder feedback suggests that insufficient time is allowed in order to adequately finalise the audit report.</p> <p>There is therefore some justification to review the performance measure with a view to increasing the number of days for both the Auditor and the Auditee to finalise reports in order to ensure the accuracy of final reports and audit report recommendations remaining outstanding.</p>	<p>The performance measure utilised to measure the number of the days taken to issue a final report should be reviewed and appropriate timescales derived.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> July 2019</p>

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	<p>As part of the roll out of the new structure the intention is to increase the level of dialogue and engagement with SLT members. This should provide an opportunity to address issues such as the timescales for dealing with Internal Audit reports.</p>		
7.	<p><b>Quality Assurance and Improvement Programme (Standard 1320)</b></p>		
7.1	<p>The standards require the development of a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity.</p> <p>Although the Charter refers to the requirement to develop a QAIP, an action plan has not been defined, agreed and presented which includes the necessary actions, assignees and timescales for completion of the required actions.</p> <p>Consequently, an effective mechanism does not exist to provide the latest position visibly and to monitor progress against the QAIP.</p>	<p>The results of the QAIP should be presented in the form of a structured and appropriate improvement plan, which includes the necessary improvement actions, assignees and timescales for completion of the required actions.</p> <p>The QAIP should be reported as part of the Internal Audit Annual Report and Internal Audit Effectiveness Report along with the progress against any required actions.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> July 2019</p>
7.2	<p>The Institute of Internal Auditors provides a checklist in order to assess compliance against the PSIAS.</p> <p>This checklist has been completed by the Internal Audit Manager. It was noted that levels and details of evidence were not always sufficient to support compliance with the PSIAS.</p>	<p>The PSIAS checklist should be expanded to demonstrate the level of compliance the Internal Audit activity is achieving against the specified standards.</p> <p>In doing so, the information provided by the Assessor should be considered to assist this process.</p>	<p><b>Response</b> Information demonstrating compliance with elements of the checklist will be enhanced as part of the annual review of effectiveness.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b></p>

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		Priority: Low	July 2019
	<b>PERFORMANCE STANDARDS (Managing the Internal Audit Activity)</b>		
8.	<b>Planning (Standard 2010) and Coordination (Standard 2050)</b>		
8.1	<p>The Internal Audit Business Case acknowledges that the organisation has not yet defined an assurance framework in order to identify and determine the approach to using other sources of assurance.</p> <p>In the absence of such, the Internal Audit Annual Plan of activities is based on the application of an Audit Risk Assessment across the audit universe which considers a number of factors e.g., value of transactions, results of previous audit work, date since previous audit.</p> <p>It was noted that a significant element of the audit plan is devoted to a programme of grant certification work and annual reviews of financial systems. Over one quarter of the 2018/19 audit plan is devoted to these types of audit work.</p> <p>Although it has been acknowledged that a degree of continuous assurance is required, such audits are cyclical routine audits which are generally well controlled. In addition, such audit work doesn't appear to be directly present any strategic or operational risk nor is consistent with the Combined Authority's priorities and the three lines</p>	<p>The development of an assurance framework should be a priority.</p> <p>The Internal Audit Manager should review the risk-based planning methodology with a view to ensuring that the assessment takes account of the strategic and operational risks along with three lines of defence model.</p> <p>The SLT should be consulted in order to have oversight and the opportunity to input to the approach to ensure that it is appropriate and value adding to the organisation.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> 2019/20 Strategic Audit Plan considers corporate risk information, objectives and provides links to risk categories. However, it is acknowledged that risk reporting arrangements are still being developed and there is a dependency on Internal Audit's knowledge of the operations and associated risks when identifying and prioritising assurance activity. It is an objective to develop second line defence management assurance reporting which, with the enhancement of the risk framework, will facilitate a shift in approach to Internal Audit activity.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Dec 2019</p>

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	<p>of defence model.</p> <p>The focus / emphasis of the current audit plan may not therefore be providing sufficient coverage for the likes of potential strategic or operational risks.</p> <p>Several officers interviewed reinforced this issue and suggested that the audit approach could be reviewed to include more consultancy type work e.g. more involvement in new systems and developments along with a programme of risk based themed reviews aimed at assessing a number of cross cutting risk areas.</p> <p>The involvement and support of the SLT collectively would ideally be required in order to assess whether the Combined Authority would benefit from a change to the existing audit methodology.</p>		
8.2	<p>It was noted that the terminology applied to the risk based annual audit plan is not always consistent with the corporate risk management system e.g. the audit plan is based on risk categories whereas the Corporate Risk Register refers to risk types.</p> <p>Consequently, this may adversely impact upon the effectiveness of the audit planning process.</p>	<p>The terminology applied to the risk based annual audit plan should be consistent with the Corporate Risk Management System.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Risk categories used corporately and within the Internal audit Plan are broadly in line. However, it is accepted that some minor amendments are required.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Dec 2019</p>

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<b>9.</b>	<b>Resource Management (Standard 2030)</b>		
9.1	<p>The Internal Audit Service comprises a relatively small team and it has been recognised by both the Internal Audit Manager and the organisation that sufficient resources are not available to audit all audit activities within the audit universe.</p> <p>However, the level of resource imbalance between the audit universe and the actual audit plan is not currently reported to SLT and the Governance and Audit Committee.</p> <p>This would help to ensure awareness and thereby enable due consideration to be given to the current audit resource and ascertain whether it should be augmented in any way or not.</p>	<p>The level of resource imbalance between the audit universe and the actual plan should be reported to SLT and the Governance and Audit Committee within the Annual Plan Report to enable both awareness and potential review.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> The requirement for independent assurance is identified before any assessment of audit resource is calculated. At this point an evaluation of how the plan can be achieved, in house team or in house plus external resources, is made. The underlying objective is to provide sufficient work on which an opinion of the entire control, risk management and corporate governance arrangements can be delivered. Audit activities not included within the plan are regarded as low risk. Internal Audit will review this approach and consult with stakeholders concerning this observation.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Dec 2019</p>
<b>10.</b>	<b>Engagement Planning (Standard 2200)</b>		
10.1	<p>An Internal Audit Project Brief / Terms of Reference is completed for each audit assignment. It was noted that the timing and resource allocation details are not included within the Project Brief / Terms of Reference.</p> <p>Consequently, the auditee is not fully aware of such details prior to the commencement of the</p>	<p>The Internal Audit Project Brief / Terms of Reference should be amended to include the timing and resource allocation details accordingly.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> April 2019</p>

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	<p>review. The absence of such information may be contributing to the negative feedback in respect of the timeliness of the completion of audit work as reported within the 2017/18 Annual Report.</p> <p>This issue was reinforced following feedback from stakeholders obtained during the course of this external assessment</p>		
11.	<b>Engagement Scope (Standard 2210)</b>		
11.1	<p>The scope of consulting / advisory engagements is not documented and agreed with management prior to undertaking the work.</p> <p>This issue gives rise to the risk that management may not be clear as to the remit of Internal Audit and also the expected outputs arising from such work. This may also present a missed opportunity to utilise outputs to inform the annual assurance opinion.</p> <p>Although the extent of this type of work is minimal, the intention is for Internal Audit to undertake more of this type of work moving forward. This has been acknowledged within the recent Business Case.</p> <p>In addition, feedback from stakeholders obtained as part of the assessment process reinforced this issue.</p>	<p>The scope of significant consulting / advisory engagements should be documented and agreed with management in the form of a terms of reference prior to undertaking the work.</p> <p><b>Priority: Medium</b></p>	<p><b>Response</b> To be included in the review and development of the Internal audit Charter.</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> Sept 2019</p>

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<b>Ref</b>	<b>Observations</b>	<b>Action to Consider / Priority</b>	<b>Management Action / Responsible Officer and Implementation Date</b>
<b>12.</b>	<b>Use of 'Conducted in Conformance with the PSIAS (Standard 2430)</b>		
12.1	<p>The standards state that Internal Auditors should report that engagements are 'conducted in conformance with the PSIAS' (if the results of the QAIP support such a statement).</p> <p>It was noted that although the Project Brief / Terms of Reference refers to the PSIAS, the current report format does not include reference to such. Consequently, there is a missed opportunity to evidence that the service follows professional standards.</p>	<p>Once the appropriateness of this assessment and the accompanying QAIP has been agreed and implemented, the wording of various Internal Audit Reports and documents should be amended to include reference to engagements being conducted in conformance with the PSIAS.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> April 2019</p>
<b>13.</b>	<b>Disseminating Results (Standard 2440)</b>		
13.1	<p>Internal Audit reports are issued via e-mail. However, details of the recipients of the audit report are not included within the body of the Internal Audit report.</p> <p>This may adversely impact upon the degree of visibility and accountability attached to actioning the recommendations within the Internal Audit report.</p>	<p>Internal Audit reports should include details of the recipients of the report.</p> <p><b>Priority: Low</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> April 2019</p>
<b>14.</b>	<b>Overall Opinion (Standard 2450)</b>		
14.1	<p>The standards require that the annual internal audit opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.</p>	<p>The assurance opinion noted within subsequent Internal Audit Annual Reports should include reference to the effectiveness of the governance and control framework.</p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p>

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	<p>It was noted that whilst the annual opinion provided in respect of 2017/18 referred to the adequacy of the governance and control framework, this did not extend to effectiveness.</p> <p>This may therefore result in an insufficiently robust opinion being given in terms of compliance with the Accounts and Audit Regulations 2015.</p>	<p><b>Priority: Medium</b></p>	<p><b>Timescale</b> April 2019</p>
14.2	<p>The standards require that the Internal Audit Annual Report includes a comparison of work actually carried out with the work planned.</p> <p>Although the Internal Audit Annual Report acknowledges that changes to the original audit plan have been made in response to changing priorities during the year, details of planned work not undertaken along with the rationale is not included.</p> <p>This adversely impacts on transparency of the work actually completed which contributes and supports the overall assurance opinion.</p>	<p>The Internal Audit Annual Report should include details of the planned audit work which hasn't been undertaken during the year along with the rationale for not completing such work e.g. audit deferred, no longer required.</p> <p><b>Priority: High</b></p>	<p><b>Response</b> Agreed</p> <p><b>Responsibility</b> HOIA</p> <p><b>Timescale</b> July 2019</p>