

West Yorkshire Combined Authority

Internal Audit Annual Report and Opinion 2018/19

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 (the Combined Authority) 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

The Combined Authority'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 the Combined Authority 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 the Combined Authority'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 Combined Authority. 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 2018/19 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 the Combined Authority in April 2018.

How Internal Control is Reviewed

Internal Audit have developed a risk-based approach to delivering the audit function. References have been made to the Combined Authority'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, the Combined Authority 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 has been adopted and applied as proper practice by the Combined Authority.

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

Scope of Internal Audit Opinion 2018/19

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 2018/19 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 2019.
- 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 the Combined Authority's objectives and activities.

Annual Opinion 2018/19

From the work undertaken during the financial year 2018/19 and taking into account other sources of assurance, Internal Audit have reached the opinion that, overall, the effectiveness of the Combined Authority's framework of control and governance is adequate.

In reaching our opinion the following key factors were considered:

Risk Management

Risk Framework

During the period a review of the Combined Authority's risk management framework was undertaken.

This review recognised that the corporate risk management framework is currently being developed and that much has been achieved. However, there are now opportunities to further develop risk management within the Combined Authority so that it becomes an effective component of organisational governance. The principal matters for consideration include the consolidation of all risk registers throughout the organisation, the structure of reporting and escalation of risk be clearly provided, the development of a risk aware culture and introduction of training and initiatives to support this process. It was also highlighted that additional performance indicators require development to support the reporting and management of risk.

Governance

Corporate Governance

The Combined Authority 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. This demonstrated through the review of governance arrangements conducted throughout 2018/19. This has included consideration of the Authority's structure and terms of reference for meetings and committees along with the development of schemes of delegation. Specific outcomes of this review include the appointment of a Lawyer (Regulatory) & Data Protection Officer along with the development of policies to comply with the introduction of the General Data Protection Regulations.

Code of Corporate Governance

WYCA demonstrates how it meets the principles of governance through the review and production of its Code of Corporate Governance. It is acknowledged that the organisation is going through a period of significant change in relation to its purpose, accountability, governance and stakeholders and the long term success of recently introduced arrangements will need to be monitored.

Third-Party Assurance

Metro Ticket Sales

The Combined Authority offers Metro ticket sales through Rail ticket offices. Under these arrangements, Northern Rail are required to periodically provide information relating to the value of sales, commissions and spoils.

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

For 2018/19, the Combined Authority have been unable to obtain an assurance statement from Northern Rail in relation to the operation of key controls found within their processes.

However, an internal audit review of controls operated by the Combined Authority in respect of income reported for the sale of Metro ticket products through Rail outlets, indicated that there were no apparent material discrepancies identified.

Treasury Management

Leeds City Council (LCC) provides treasury management and related financial services under the conditions of a service level agreement. Internal Audit have 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 the Combined Authority's Whistleblowing Policy. Arrangements to improve accessibility to information and mechanisms to make protected disclosures are provided on the Combined Authority's web site. In addition, information providing details of the Combined Authority'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 the Combined Authority'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.

In addition, the Whistleblowing Policy for the Leeds City Region Local Enterprise Partnership, LEP, has been updated to incorporate recommendations resulting from the Ney review¹.

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.

In addition, an external quality assessment of the Internal Audit activity was performed in April 2019.

Both these reviews concluded that, overall Internal Audit complies with the requirements of the definition of Internal Audit, the Code of Ethics and PSIAS.

¹ Review of LEP governance and transparency conducted by Mary Ney, a MHCLG non-executive director.

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, Corporate Services in line with the Combined Authority's development processes. This is considered as an adequate method of providing feedback on performance.

Areas for Action

PSIAS require that 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. The key issues identified within the improvement plan are provided below.

1000 Coordination - Authority and Responsibility

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.

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, Corporate Services.

Response

To be updated once the revised Counter-Fraud Policy has been approved later in 2019.

1320 Quality Assurance and Improvement Programme

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.

Response

The QAIP will be reported as part of the Internal Audit Annual Report and Internal Audit Effectiveness Report along with the progress against any required actions.

2010 Planning and Coordination (Standard 2050)

The development of an assurance framework should be a priority. 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.

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.

Response

The 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.

2030 Resource Management

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.

Response

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.

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 external assessment and 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 the Combined Authority'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 the Combined Authority 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 Pentana, the Combined Authority's corporate performance management system.

Performance Indicators

A range of performance indicators have been developed for Internal Audit based on costs for 2018/19 and other identified timescales. These have been compared with benchmark data produced by the Chartered Institute of Public Finance & Accountancy.

	<u>Actual</u>	<u>Benchmark² Average</u>
Cost Per Audit Day	£203 ³	£308
Mainline Audit Days Per £m Turnover	1.59	1.80
Cost Per Auditor	£32,571	£51,980
Days Per Auditor	160	176
Total Cost per £m Turnover	£526	£554

Annual Audit Plan

Completion of audit reviews identified within the plan – Target	100%
Actual performance	84%

Client Feedback

Post audit client questionnaire ratings of “2” or better - Target	90%
Actual performance	80%

Issuing Reports

Internal Audit reports to be circulated within 5 working days of audit closure – Target	90%
Actual performance	72 ⁴ %

² CIPFA auditing benchmark comparator Local Authorities in England

³ Actual costs are well below the average for public sector Internal Audit functions. This is primarily a reflection of the grading levels of post within the activity throughout 2018/19

⁴ Issues have continued to be experienced in relation to the attainment of management responses to audit observations. IA will consider further actions to be introduced in 2019/20 to address this matter

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 2018/19 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.	5	6	2	
2	Throughout the audit process I was kept informed of the work being done and issues arising.	5	5	3	
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).	4	5	4	
4	Internal audit staff demonstrated a pragmatic approach to developing solutions to issues identified during the audit.	4	6	3	
5	The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses.	3	5	5	
6	Internal audit staff acted in a professional manner throughout the assignment.	9	4		
Scale ; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 Strongly disagree					

The results of these surveys indicate that the majority of stakeholders are satisfied with the delivery of Internal Audit engagements. However, it is noted that further work is required to improve the timescales for the distribution of audit reports and stakeholders perception of the level of auditors understanding of some aspects of the Combined Authority's operations.

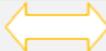
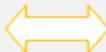
Audit Plan 2018/19

Details of the work performed by Internal Audit in 2018/19 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.

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
Financial Risk <i>Risk of failing to manage finances in accordance with public sector accounting requirements and funding constraints.</i>				
	Robust Financial Management	Creditors Payments	Defer 19/20	
	Robust Financial Management	Main Accounting – General Ledger	Reasonable	↔
	Robust Financial Management	Debtors, Debt Management	Reasonable	↔
	Robust Financial Management	Treasury Management	Reasonable	↓
	Attainment of Value for Money. Statutory Compliance	Procurement including Tendered Subsidised Bus Service Contracts.	Considered as part of TSBS review	
	Robust Financial Management	Payroll	Reasonable	↔
	Robust Financial Management	Expenses & Allowances – compliance with guidance	Defer 19/20	

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
Legal Compliance Risk <i>Risks arising from non-compliance with legislative requirements.</i>				
	Improved Transparency	Gifts & Hospitality	Reasonable	
	Statutory Compliance	Health & Safety - CDM.	Advisory report produced.	
Governance Risk <i>Risk that losses or organisational performance is compromised as a result of unclear authorities, structures and accountabilities</i>				
	Effective Corporate Planning & Performance	Corporate Risk Management Framework	Reasonable	
	Improved Transparency	Code of Corporate Governance Declarations of Members Interest	Substantial	
	Statutory Compliance	Recruitment Procedures & Temporary Employment Arrangements	Defer 19/20	
	Statutory Compliance	Annual Governance Statement	Reasonable	

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
Operational/ Risk <i>Risk of impaired service delivery resulting from inadequate or failed internal processes and systems, error and deficiencies in the performance of external suppliers and stakeholders.</i>				
	Bus Services Provision	Prepaid Tickets & Concessionary Fares	Reasonable	
	Bus Services Provision	Tendered Subsidised Bus Services Management/Monitoring	Limited	
	Retail Services	Metro Travel Centre Operations	Reasonable	
Delivery Change Risk <i>Risk that programmes and projects are not delivered in time, within budget and do not deliver agreed benefits. Risk of fraud, misappropriation of funds</i>				
	Delivery of Projects & Programmes Robust Financial Management Attainment of Value for Money. Statutory Compliance	PMO Feasibility and Assurance controls, due diligence/approval management,	Reasonable	First Review

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
	Delivery of Projects & Programmes Robust Financial Management Attainment of Value for Money. Statutory Compliance	LTP Management	Reasonable	
	Delivery of Projects & Programmes Robust Financial Management Attainment of Value for Money. Statutory Compliance	Skills Capital	Limited	
Information and Communication Risks				
<i>Failing to provide sufficient, appropriate, consistent and timely information to key</i>				

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
<i>internal and external stakeholders.</i>				
	Improved Transparency	Transparency Code Compliance	Reasonable	
	Improved Transparency	Freedom of Information Requests	Substantial	First Review
Data Security/Data Protection Risks <i>Failure to adequately maintain and protect business critical data and appropriately, hold sensitive personal information</i>				
	Statutory Compliance	GDPR Compliance - Project	Limited	First Review
	Statutory Compliance	GDPR Data Breaches, Privacy, Information & Training	Limited	First review
	Secure Systems	Cyber Attack/Systems Penetration testing External report review	n/a	n/a
Counter Fraud				
	Statutory Compliance Robust Financial Management	Pro-active counter fraud, data matching tests	Substantial	
	Statutory Compliance Robust Financial Management	Allowance/contingency to investigate any allegations of suspected fraud, bribery or corruption.	n/a	n/a

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
Value for Money	Attainment of Value for Money.	Allowance for value for money reviews of functions and processes in operation	Defer 19/20	
		.		
Consultation		Allowance for the provision of advice in relation to the development and implementation of new or significant changes to systems and processes		
	Secure Systems	Development of Risk Management/Corporate Governance	n/a	n/a
Certification				
	Head of Internal Audit Assurance	Access Innovation Fund	Substantial	↔
	Head of Internal Audit Assurance	Growth Deal Fund	Substantial	↔
	Head of Internal Audit Assurance	Growth Hub Grant	Substantial	↔
	Head of Internal Audit Assurance	Resource Efficiency Fund	Substantial	↔
	Head of Internal Audit Assurance	Local Transport Fund	Substantial	↔
	Head of Internal Audit Assurance	L-CREATE, ERDF & ESIF	Substantial	↔
	Head of Internal Audit Assurance	Strategic Business Growth Fund	Substantial	↔

Risk Category	Corporate Objective	Assurance Area	Assurance	Direction of Travel
Follow up		Allowance for the follow up of progress in implementing agreed actions to significant control weaknesses		
	Head of Internal Audit Assurance	Business Contingency Arrangements	Reasonable	
	Head of Internal Audit Assurance	IT Network Access	Reasonable	
General Contingency		Contingency for the requirement for Internal Audit to perform unplanned work.		
		Flood Resilience Fund	Reasonable	First Review
		BSOG - Certification	Substantial	
		Broadband UK – Annual Certification	Substantial	First Review
		Funding Reviews	n/a	n/a

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 the Combined Authority's objectives and 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 the Combined Authority's own controls and the wider control environment, providing advice and examples of best practice.
 - We have assisted the Combined Authority 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

Rating	Definition
Substantial	<p>There is a sound framework of control in place and the controls are being consistently applied to ensure risks are managed effectively.</p> <p>Some minor action may be required to improve controls.</p>
Reasonable	<p>There is a good framework of control in place and the majority of controls are being consistently applied to ensure risks are effectively managed.</p> <p>Some action may be required to improve controls.</p>
Limited	<p>There is an adequate framework of control in place but the controls are not being consistently applied to ensure the risks are managed effectively.</p> <p>Action is required to improve controls.</p>
Minimal	<p>There is a weak framework of control in place and/or the controls are not being consistently applied to ensure the risks are managed effectively.</p> <p>Urgent action is required to improve controls.</p>