

## Appendix 1

# Internal Audit Report and Opinion 2020/21

## 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 alongside any other internal or external assurances on which Internal Audit can rely.

## Scope of Internal Audit Opinion 2020/21

In providing the 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 2020/21 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

It should also be noted that the last year has provided a number of challenges in terms of being able to progress work as normal due to the pandemic restrictions. In the initial stages of the crisis, the audit team offered operational support by running the processes for getting necessary equipment to staff, this was handed over to the ICT team once they had capacity to take it on.

Lockdown also created some difficulties where information was still held in non-electronic form and obviously a number of reviews were deferred as a result of the changes to our ways of working over the last year. Audit also took the decision to focus primarily on advice and guidance work for the first half of the year but did undertake rated assurance work in the latter half of the year to ensure a rounded opinion could be provided.

## Annual Opinion 2020/21

From the work undertaken during the financial year 2020/21 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, governance and risk management is adequate.

In reaching our opinion the following key factors were considered:

### **Risk Management**

A key element of the control environment at the Combined Authority is ensuring that risk management is effectively embedded. The Corporate Risk Management strategy was approved by the Governance and Audit Committee in January 2020. Roles and responsibilities for risk management are clearer and recommendations made in an Internal Audit review of risk management in 2019-20 have also been implemented. Whilst there is work still to be done to further embed risk management in all the directorates and teams within the Combined Authority progress is being made with a central team overseeing the risk management process.

### **Governance**

The Combined Authority has continued to progress its development of its governance arrangements with the appropriate reviews and refinements to delegated authorities, the assurance framework and internal governance reporting. Work has continued on using digitisation to enhance processes but has been delayed as technical resource is sought. Completion of this work will see more streamlined and consistent reports for decisions and Health and Safety incident reporting and progress will continue to be monitored.

Being Mayoral Combined Authority (MCA) ready absorbed a significant amount of time in 2020/21 with particular emphasis on governance readiness and bringing the Office of the Police and Crime Commissioner into the Combined Authority. This has resulted in changes to delegations, new committee structures (particularly enhanced scrutiny) and internal directorate restructuring. The Combined Authority does intend to review arrangements during the course of 2021/22 and Audit will continue to provide advice and guidance as appropriate.

### **Summary of Whistleblowing Cases**

Internal Audit continues to act as the primary contact point for the Combined Authority's Whistleblowing Policy. During the year, one internal referral was made, the investigation found no evidence of a breach of policy and no further action was taken after investigation. Some suggested improvements to policy were made and will be followed up during audit assurance activity during 2021/22.

### **Summary of Fraud Cases**

Internal Audit have investigated a referral for COVID-19 payment relief fraud during the year which has not been pursued as a criminal case at this time. We did however follow up the wider contractual implications and systems weaknesses identified whilst considering this matter.

A number of 2020/21 bi-annual National Fraud Initiative matches are also currently being considered, and further data matching is being done internally on other information not submitted as part of this exercise.

## Controls

West Yorkshire Combined Authority has continued to operate its system of controls in 2020-21 and Internal Audit has undertaken compliance work within the business to assess how well those controls are being applied. This has identified that while controls appear to be working adequately, there is room for improvement around policies, the need for new, more effective systems, particularly around HR and Finance, and improved monitoring by all levels of management to ensure better compliance.

## Summary of Internal Audit Work 2020-21

The work of Internal Audit against the agreed audit plan is summarised in the table below.

	Assurance Area	Comments	Status	*Assurance level
1	Strategic planning	A high-level review of the strategic, directorate and team business planning functions against best practice. This review has been deferred until after the Authority has become a Mayoral Combined Authority.	Deferred, but audit involvement in the development of digitised business planning.	N/A
2	Corporate Governance (in particular connectivity across directorates)	Head of Internal Audit part of project delivery team for MCA Workstream 4 – Decision Making and Committee Structures, advice and guidance offered in the work undertaken to develop new governance and committee arrangements.	Ongoing	Advisory

	Assurance Area	Comments	Status	*Assurance level
3	Management Information Systems (MIS) – Corporate	Business continuity/ disaster recovery and all management information systems involved to be covered with particular emphasis on COVID-19 Recovery and lessons learned from the current crisis. We made 4 recommendations to improve record keeping, roles and responsibilities and ensure there is adequate resource to support the plans.	Completed	Reasonable Assurance
4	Management information systems (MIS) – HR & Finance <i>now Integrated Corporate Services System Development</i>	A project to develop new systems for Finance, Payroll and Human Resources (HR) commenced as part of the MCA preparation work in June 2020. Head of Internal Audit provided advice and guidance on the project itself in addition to the team providing advice on processes and controls.	Ongoing throughout the implementation of the new system.	Advisory
5	GDPR and data privacy	Working with the Information Governance Team the review focused on examining policies and procurements to determine compliance with Data Protection Impact Assessments (DPIA) and the extent of completion of mandatory Data Protection and Information Security Training. We made 2 recommendations covering improvements in compliance with DPIA requirements.	Completed	Limited Assurance
6	Culture – working together	Given the current circumstances and the changes necessitated by both the pandemic and MCA implications, this work was no longer considered appropriate for this plan year.	Deferred	N/A
7	Financial – access to future funding streams	With the move to an MCA where significant devolution funding would be available across several areas this review was deferred.	Deferred	N/A
8	ICT including cyber security (vulnerability management)	Audit engaged the services of a specialist supplier to undertake an ICT risk assessment with a view to them then providing assurance work in line with the priorities from the assessment. The assessment was completed in August/September 2020 and a plan for undertaking reviews was scheduled to begin in May 2021. This reflected the pressure that ICT was under to deliver services during the pandemic. The specialist supplier has also been providing some additional data analytics support that will help to inform our reviews of controls.	Risk Assessment complete. Reviews deferred to 21/22	Advisory

	Assurance Area	Comments	Status	*Assurance level
9	Digitisation	The Head of Internal Audit has been a key member of the digitisation workshops for both the Request for Decision (RFD) process and H&S incident reporting workstreams.	Ongoing – Audit will continue to advise as part of the MCA Digital programme.	Advisory
10	Health and safety	Previous external work identified a number of areas of improvement required. However, this is less applicable with the move to more staff working from home due to COVID-19, the changing health and safety framework and any changes a Mayor may want to make. Audit has been working on the development of the Health & Safety reporting app to help to improve the reliability and adequacy of reporting incidents.	Ongoing – Audit will continue to advise as part of the MCA Digital programme.	Advisory
11	Climate change (Tackling the climate emergency)	This review examined the CA's commitment to 'Tackling the Climate Emergency' and how internally it proposed to do this and how well it was monitoring progress against an internal action plan. We made 3 recommendations to improve governance arrangements, better monitoring of the internal action plan and enhance and increase climate emergency awareness in the organisation.	Completed	Limited Assurance
12	Risk management	An annual health check to inform the audit opinion and follow up actions from the 2019-20 work were largely found to have been implemented. There is ongoing work to continue to embed risk management processes across the organisation, there is a central team monitoring and updating corporate and directorate risks, there is a corporate risk strategy in place with regular updates provided to the Governance and Audit Committee.	Draft report	Reasonable Assurance (draft report)

	Assurance Area	Comments	Status	*Assurance level
13	HR compliance follow up review	This review was combined with the work on the HR Strategy Implementation (see 21 below) and the Workforce Development Devolution workstream (currently 22). schedule. We made 5 recommendations which included reviewing the HR Strategy and Workplan, staff performance review process and ensuring HR policies were up to date and readily accessible.	Draft report	Limited Assurance (draft report)
14	Programme assurance	A rolling programme of reviews to be undertaken to health check that projects and programmes are moving appropriately through the relevant processes, and how well we are applying our preferred project management methodology.	Energy Accelerator Contract Review- Report issued	Advisory
15	Counter fraud work	Internal Audit have developed, gained approval for and published updated policies on Whistleblowing, Anti- Fraud and Corruption and Anti Money Laundering in the plan year.  Investigative work is carried out on whistleblowing, National Fraud Initiative (NFI) and other fraud referrals as these are identified.  Ongoing proactive work is being undertaken using data analytics testing and reviews on high-risk areas to provide assurance on controls.	Ongoing	N/A
16	Security of assets (Land and Property)	This review examined the adequacy of systems to safeguard and secure land and property assets ensuring compliance with Financial Regulations and Contract Standing Orders. We made 2 recommendations that there was a periodic reconciliation of the asset property database and, documenting the insurance management process particularly around protecting the CA's assets against losses.	Draft report	Reasonable Assurance
17	Compliance with Contracts Standing Orders & Financial Regulations	This has been done via Internal Audit representation on the ICS project board (see 4 above) and Audit has contributed to the 'as is' and 'to be' process work undertaken in the run up to the procurement of the new ERP system – this will continue throughout the implementation of the system ensuring early advice on controls	Ongoing	Advisory

	Assurance Area	Comments	Status	*Assurance level
		Other work to be done using data analytics to detect non-compliance/potential duplicate payments.		
18	Equalities	The review examined the CA's vision, processes to comply with its Public Sector Equality Duty and equality processes. The review also facilitated an internal assessment against the LGA Equality Framework for Local Government. We made 4 recommendations to improve and refresh the CA's vision, review and update the EDI action plan, ensure better accessibility of the CA's website and undertake a further review against the EFLG.	Completed	Limited Assurance
19	Procurement	Compliance checks were undertaken on a sample of contract waivers and procurements. 2 recommendations were made to improve procurement documentation.	Completed	Reasonable Assurance
20	Contract management – Web3	This Lessons Learned review at the request of Senior Leadership Team focused on the Web3 project to redevelop the CA's websites and examined how well the contract was monitored and managed. Internal Audit made a number of suggestions to improve controls and processes in relation to project governance and contract management.	Completed	Advisory
21	HR Strategy implementation	See 13 above.	See 13 above.	N/A
22	Devolution	Significant resource has been allocated to the introduction of devolved Adult Education Budgets (AEB). This has included involvement on their project board and the various workstreams, as well as the development of an Audit and Assurance framework. Details are provided in the 'MCA Readiness' narrative below.  Considered other workstreams as part of relevant assurance areas as detailed elsewhere (Corporate Governance, Climate Change- and HR Strategy/ Compliance)	Ongoing	Advisory



	Assurance Area	Comments	Status	*Assurance level
		There has also been significant focus on PCC transfer which has included agreeing new governance arrangements for the committees and reporting of audit work by the PCC/WYP shared service.		
23	Brexit	While the COVID-19 crisis and Devolution deals resulted in a shift in the priority accorded to this area within the business and from government, the relevance of this audit became of less relevant.	Removed from Plan	N/A
24	Quality Assurance	A review of the quality standards the CA is subject to and the assurance it seeks to ensure these are being met. This will also be considered as part of the development of an assurance reporting framework.	Deferred	N/A
25	Skills and property	Due to current Covid-19 circumstances and the MCA readiness work, this will be considered as part of other reviews specifically HR and MCA.	Considered as part of other reviews.	N/A
26	Construction (Design and Management) CDM	This was a specific piece of work relating to Health & Safety (currently 10) and has been deferred to engage external consultants.	Deferred	N/A
27	Safeguarding	This was initially proposed by Transport Services with regards to their role with children and young people, however it may need expanding after considering new responsibilities after devolution, such as vulnerable adults receiving adult education.	Deferred to 2021-22	N/A
28	Complaints handling/casework	These processes were considered as part of the MCA Readiness Workstreams, with potential links to CTP digitisation, the Head of Internal Audit was involved with both these projects providing advice and guidance on controls and governance.	Deferred to 2021-22	N/A

	Assurance Area	Comments	Status	*Assurance level
29	Various grant certifications	See grants section below.	Completed	N/A
30	LTP Grant Audit - NEW	This was a focused audit to follow up on previous recommendations and to highlight two more as a result of the work undertaken. 2 recommendations to improve controls were made to ensure grants documentation is complete.	Completed	Reasonable Assurance
31	AEB Procurement DPS Stage one - NEW	This review focused on the process of assessing applications received at Stage One of the Adult Education Budget tender exercise using a Dynamic Purchasing System framework. We made 3 recommendations to improve record keeping, improve documentation and accurately recording information.	Completed	Reasonable Assurance
32	Emergency Active Travel Fund	Audit undertook checks on expenditure and made 2 recommendations to address issues identified with the declaration forms and ensuring information was accurate and complete.	Completed	Reasonable Assurance

*Level of Assurance	Description
<b>Reasonable</b>	<b>There is a good framework of controls in place and the majority of controls are being consistently applied to ensure risks are managed effectively.</b>
<b>Limited</b>	<b>There is an adequate framework of controls in place but the controls are not being consistently applied to ensure the risks are managed effectively.</b>

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**Minimal**      **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.**

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### Grant Certification work

Internal Audit resource has been used to check and certify a significant number of funding streams which has required the Head of Internal Audit to sign off that expenditure had been incurred in accordance with the grant funding terms and conditions. The outcome of this work has helped to form an opinion on the control environment. During the year we provided certification to the following;

Funding Body	Grant	Claim value (£)	Description of grant
Department for Transport	BSOG	2,063,592	Grant certified that was paid to operators of eligible bus services and community transport organisations to help them recover some of their fuel costs.
Department for Transport	Emergency Active Travel Fund (EATF) Tranche 1	2,513,000	Grant certified to provide support to local authorities towards expenditure of safe streets for walking and cycling.
Department for Transport	LTP	7,500,000	A total of £41m provided to local authorities for local capital transport expenditure, audit were required to certify the claim.
Dept for Business Energy and Industrial Strategy	Growth Service BEIS	544,067	2 claims certified. Grant for giving advice to businesses by the Leeds City Region LEP supporting the further development of Growth Hubs
European Regional Development Fund/	Strategic Business Growth	664,436	4 quarterly claims certified, to provide an integrated package of advisory and financial support to help SMEs across Leeds City Region with growth potential.

Funding Body	Grant	Claim value (£)	Description of grant
European Structural Investment Fund			
European Regional Development Fund	Investment Readiness	534,571	4 quarterly claims certified. Grant to help small and medium sized businesses (SMEs) better understand the full range of finance options and products available and put them in the best position to apply for investment.
European Regional Development Fund	Access Innovation	1,368,096	3 grant claims certified, this program was created to help businesses to innovate across Leeds City Region at the same level as other regions by enabling them access to specialist knowledge.
European Regional Development Fund	ReBiz (REF2)	527,008	4 grant claims certified, grant to support SMEs identify and implement cost effective improvements in energy and resource efficiency.
European Regional Development Fund	REF	98,933	1 claim certified, grant provided to eligible businesses to receive advice and financial support to become more resource efficient.
European Structural Investment Fund	Connecting Innovation	210,568	3 claims certified, grant to assist SMEs to develop new products and processes by facilitating collaborative relationships with research-focused organisations.
Interreg SHARE-North	SMARTY	37,220	3 claims certified, Grant focused on SMEs and innovation within modular structured smart factories, cyber-physical systems monitor physical processes.
Interreg SHARE-North	Interreg Share North (TPN)	113,426	2 claims certified. Grant provided 50% match funding.
North Sea Region Programme	ART	980	Grant certified impact that automated transport could have on the entire road transport system and life in cities and regions.
Department for Transport	CBSSG	781,448	Grant certified to support restart of Bus services during Covid-19.

## MCA Readiness

### Adult Education Budget (AEB) Project

The Combined Authority is to manage the £65 million devolved Adult Education Budget (AEB) from August 2021. One of the Principal Internal Auditors has been working on a 0.5 FTE basis on this project to identify assurance requirements and assist in the design of appropriate controls and performance management arrangements for the providers we will be managing.

Internal Audit have been active Project Board members, providing support at a strategic level. The Principal Auditor who leads on this area has also been involved in work on the following workstreams:

- **Audit and Assurance-** developing the potential coverage of a compliance visit and other necessary assurances and tasks to be carried out by Internal Audit staff to support AEB delivery in line with the proposed post implementation operational resources model. This has included drafting what roles and responsibilities will be undertaken by Internal Audit regarding compliance and assurance once AEB is live and developing resource plans in line with this.
- **Procurement-** advising on the review and publication of the DPS and mini-competition documents, tender queries raised and grant agreement and contracts as required.
- **Legal and governance-** developing workstream tasks with the core Project team and advising on various governance and organisational matters including risk registers, approvals and project documentation.
- **ICT and data-** helping to compile system requirements and how these might be delivered as part of the working group on this area, including those specifically for audit and assurance and reviewing systems to meet these, reviewing the proposed payments system and identifying data analysis requirements and tools needed to assist in performance management.
- **Finance-** developing our approach to accounting for resource and the assurance processes over expenditure in preparation for the funding claims made of the Department for Education at both the implementation and operational stages.
- **Operational provider management-** working with the AEB and Finance teams to develop Funding Rules, the performance management framework and a risk scoring matrix to cover all our providers, based on various information sources, to assist in their management operationally once we go live.

Key Internal Audit contributions have included:

- Ensuring Readiness Conditions relating to corporate control measures submitted to the Department for Education, alongside a letter from the Managing Director stating the organisation's readiness, and how it expects to improve the exercise of statutory functions in the area were submitted in May 2020.
- Liaison with the Education and Skills Funding Agency (ESFA) and other MCA's on the Audit and Assurance and Fraud Investigations (AAFI) group.
- A review has been completed by the main Internal Audit Team on Stage 1 of the Dynamic Purchasing System (DPS) process.

Future tasks involve the development of a Performance Management staffing structure that has been fully resourced and for which recruitment has commenced, including a further full time Principal Internal Auditor and three Internal Auditors. We will also be:

- Assisting in the onboarding of over 40 providers;
- Ensuring appropriate payment processes are in place prior to August 2021 when the first payments are due; and
- Onboarding further Internal Audit team members to support the provision of a programme of compliance visits.

### **Third-Party Assurance**

### **Treasury Management**

Leeds City Council has confirmed that a strong control environment continues to operate, but changes to their 20/21 plan due to Covid has meant that the audit has been deferred to 21/22.

### **Conformance with PSIAS**

The work of Internal Audit must be conducted in accordance with the Public Sector Internal Audit Standards (PSIAS). Conformance with the standards provides an indication of the effectiveness of the system of internal audit. In doing so, assessment against the standards and CIPFA local government application note and development of Quality Assurance and Improvement Programme (QAIP) is essential. The QAIP must include a combination of internal and external assessments, internal assessments are periodic and ongoing whereas an external assessment must be carried out at least once every 5 years.

It has previously been reported that an external quality assessment of the Internal Audit activity was performed in April 2019. This assessment concluded that overall Internal Audit “generally conforms” with the requirements of the definition of Internal Audit, the Code of Ethics and PSIAS. The assessment highlighted a number of actions to address areas for improvement which have formed part of the Quality Assurance and Improvement Programme (QAIP) for Internal Audit. Progress against the QAIP has been monitored throughout 2020-21 and updates provided to the Governance and Audit Committee for example by reporting a revised Internal Audit Charter and Code of Ethics.

The QAIP has been kept under regular review and Internal Audit effectiveness continues to be developed to ensure progress is made against areas identified for improvement.

### **Follow ups**

Once recommendations are agreed with Management and an implementation timetable set, the action is recorded in the Audit Actions Register. These actions then form part of an ongoing cycle of follow up work during the year and progress is reported to the Governance and Audit Committee. Recommendations are followed up to ensure that they are implemented and where there is delay the Regulatory and Compliance Board is advised. In addition, we track all outstanding recommendations (including prior years) across directorates as part of the internal performance monitoring and future audit planning.

### Performance Indicators

PI area	PI description	Target	Actual performance
<b>Issuing Reports</b>	Final report on audits to be issued within one calendar week of the final agreed deadline	100%	100%
<b>Grant Claims</b>	Grant claims processed within three working days of a fully completed file being received	90%	96%
<b>Customer Feedback</b>	Number of customer feedback questionnaires returned	70%	50%
<b>Customer Feedback</b>	Overall positive customer satisfaction rating	80%	100%

The customer feedback figures are based on low numbers this year as the assurance work was delayed until the latter stages of 20/21, we are still chasing customers to increase the number of questionnaires returned.