



Internal Audit Report and Opinion 2021/22

Bronwyn Baker / June 2022

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 2021/22

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 2021/22 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 significant challenge in terms of resourcing with a number of vacancies (the team operating at 50% capacity for nearly half the year) proving extremely difficult to fill. This issue was and continues to be quite widespread in a number of professional areas and is not just restricted to the Combined Authority. That said, some benchmarking work to review our offer was undertaken and Audit will be continuing to work with the HR team to address both what we can do to be more attractive to potential candidates as a team linked with what the Combined Authority is doing as a whole.

Specialist resource to do IT work was utilised to give assurance in relation to the project delivering a new Integrated Corporate System, cyber security and helping with data analytics.

By re-assessing the plan against changes to risks, we were able to prioritise our work that enabled a full opinion to be given that is not limited by scope. We will need to keep under review the size and nature of the team given the changes to the Combined Authority and the substantial growth of the organisation over the last two years. This will ensure that the breadth and scope of internal audit work is appropriate to the risks and priorities in play both for the medium and long term.

Annual Opinion 2020/21

From the work undertaken during the financial year 2021/22 and taking into account other sources of assurance, my opinion is that, overall, the effectiveness of the Combined Authority's framework of control, governance and risk management is adequate.

In reaching this 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 practices are effectively embedded. Attention is drawn to the “Reasonable Assurance” opinion in respect of the Internal Audit’s review of Risk Management. There is a Corporate Risk Management strategy which was approved by the Governance and Audit Committee in January 2020, the strategy is due for review. Roles and responsibilities for risk management are clear and whilst work is ongoing to continue embed risk management in all directorates and teams appropriate arrangements were found to be in place.

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 (revised and approved in February 2022) and internal governance reporting.

This now includes the arrangements for the Office of the Police and Crime Commissioner (OPCC) that became part of the Combined Authority after the mayoral election in May 2021. Audit has contributed to a number of the workstreams that have delivered these changes and continues to provide advice and guidance as further improvements are developed.

Summary of Whistleblowing Cases

Internal Audit continues to act as the primary contact point for the Combined Authority’s Whistleblowing Policy. There have been no whistleblowing referrals during 2021/22.

Summary of Fraud Cases

Internal Audit investigated a referral for COVID-19 payment relief fraud during the previous year which was not pursued as a criminal case as the allegation was against a third party. We did however follow up the wider contractual implications and systems weaknesses identified whilst considering this matter and provided an advisory report to assist in strengthening those controls.

The 2020/21 bi-annual National Fraud Initiative matches were considered by the relevant teams in the business during this last year and Internal Audit provided oversight and an assurance report to the Regulatory and Compliance Board on the outcome of that work.

One internal fraud case, related to time recording concerns, was dealt with through the disciplinary process and suitably resolved, this did not require investigation by the counter fraud officer.

There were no other fraud related matters or referrals in the 2021/22 financial year.

Controls

West Yorkshire Combined Authority has continued to operate its system of controls in 2021/22 and Internal Audit has undertaken compliance work within the business to assess how well those controls are being applied. In 2020/21 it was identified that while controls appeared to be working adequately, there was 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. The project to deliver a new integrated corporate system encompassing HR, Finance and Payroll began in November 2021 and Audit has had a seat on the project board to provide assurance as the project progresses. This project provides significant opportunity for strengthening of controls in these areas and Audit will continue to assure the project as it moves to completion at the end of 2022.

Summary of Internal Audit Work 2021-22

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

	Assurance Area	Comments	Current Status	*Assurance Level
1	Project and Programme Assurance - Natural Flood Management	The review found there was good compliance with the Combined Authority's assurance framework. We made one suggestion for Management to consider as part of improvements to project management processes.	Completed review	Reasonable Assurance
2	Health & Safety	This review examined the health and safety system and found that whilst there were adequate processes, opportunities to strengthen internal controls were identified around inspections and digitising H&S checklists to ensure easier compliance and recording.	Completed review	Reasonable Assurance
3	Contract Management - Mechanical and Electrical Maintenance Repair service contract	We reviewed the Mechanical and Electrical Maintenance Repair Services contract to determine compliance with contract standing orders and standards. Recommendations were made to improve budgetary controls and contract renewals, overall the contract achieved a good level of compliance with contract standards.	Completed review	Reasonable Assurance

	Assurance Area	Comments	Current Status	*Assurance Level
4	Contract Management - Review of the Bus Shelters contract	Audit reviewed the contract for glazing, repair and maintenance services of bus stops to determine compliance with contract standing orders and standards. The review concluded that there were key areas where sufficient evidence of control was not demonstrated and recommendations were made to improve document management, recording decisions and monitoring of budgets.	Completed Review	Limited Assurance
5	Compliance with Contracts Standing Orders & Financial Regulations	Internal Audit reviewed the adequacy and effectiveness of controls in place to manage risks associated with the Creditor and Purchasing systems. Two recommendations were raised to strengthen existing controls around changes to supplier details, and order approval permissions on the purchasing system.	Completed Review	Reasonable Assurance
6	Adult Education Budget Procurement Stage 2	The review found that there was good compliance with procurement rules and contract standing orders, with the AEB team duly supported by the Commercial team to ensure guidance was followed. We did make a recommendation to improve the audit trail when agreeing allocation of funds.	Completed Review	Reasonable Assurance
7	Safeguarding	We reviewed the CA's safeguarding arrangements including a high-level review of policies and guidance in place for staff to raise concerns. Recommendations were made for Management to review the safeguarding policy and raise its awareness, deliver staff training as well as improving systems for recording issues and concerns and reviewing procurement guidance.	Completed Review	Limited Assurance
8	Procurement	We reviewed procurements from each directorate and found each had complied with contract standing orders and procurement rules, no matters of concern were raised.	Completed Review	Reasonable Assurance

	Assurance Area	Comments	Current Status	*Assurance Level
9	National Fraud Initiative	This review assessed compliance with mandatory requirements of the NFI 2020 data matching exercise. As a result of the work new working methodologies have been adopted and recommendations in the report were made to improve audit trails and improve timeliness of future exercises.	Completed Review	Reasonable Assurance
10	Complaints Handling/Casework	The review found that the CA's complaints and casework handling process was managed in accordance with policies and guidance. We made some suggestions to improve working practices.	Draft	Reasonable Assurance
11	Risk Management	An annual health check to inform the audit opinion. The review highlighted ongoing work to embed risk management activities across the organisation. Recommendations were made to review the corporate strategy, improve completeness of risk registers and training of staff.	Draft	Reasonable Assurance
12	ICT – Cyber Security	Salford Internal Audit Service (our specialist ICT audit provider) have undertaken a cyber security scan to identify any unaddressed vulnerabilities. No major concerns were identified.	Completed	Reasonable Assurance
13	AEB – Provider Review (2)	This review forms part of the regular assurance cycle for AEB providers. Evidence was tested to assure the reporting, eligibility of learners and claims (financial and outcomes) have followed funding rules and contract agreements. Robust processes for this provider were operating and positive assurance has been given.	Completed	Reasonable Assurance
14	Integrated Corporate System (HR, Finance, Payroll)	Salford Internal Audit Service (our specialist ICT audit provider) examined the effectiveness of arrangements to deliver the new Integrated Corporate System and found that there is a risk that the project may not achieve its stated objectives. As a result of this assessment additional mitigations and actions have been developed by the Project	Completed	Advisory Review

	Assurance Area	Comments	Current Status	*Assurance Level
		Board which will monitor these closely and further reviews are planned.		
15	AEB – Provider Review (1)	This review was requested to advise an AEB provider on controls around registrations, learner eligibility for different funding streams, the correct application of the funding rules and monitoring processes. A number of recommendations were made which will be followed up in compliance reviews.	Completed	Advisory Review
16	Counter Fraud work including a review of business support Covid grants	The counter fraud officer completed an advisory report following a review of the contract and monitoring arrangements in place in relation to one of the sectors supported by Covid relief payments in 20/21. The purpose of this work was to strengthen controls and ensure VFM from the arrangements in place.	Completed	Advisory Review
17	Bus Funding Model - Financial Processes (Transport Services)	The review examined the process of preparing claims for audit certification, reviewed documentation and examined the internal financial control processes and oversight arrangements within the service. We highlighted areas for management to consider strengthening controls including developing clear internal quality assurance processes.	Completed	Advisory Review
18	Climate Change	We followed up progress against implementation of agreed audit recommendations from our 2020-21 review. We found that progress was slow, frequent staffing resource issues had contributed to a lack of ownership and monitoring of the internal climate change plan. Management were asked to review the current arrangements and to confirm the plan going forward.	Completed	Follow Up Review
19	Equalities	We followed up progress against implementation of audit recommendations from our 2020-21 review. We found that good progress was being made and although some matters were outstanding, a significant amount of work was taking place around equality, diversity and inclusion and the Equalities lead was fully focused on improving practice	Completed	Follow Up Review

	Assurance Area	Comments	Current Status	*Assurance Level
		around the organisation and implementing the agreed actions.		
20	Various grant certifications	A comprehensive range of grant certification was carried out over the year in line with funding applications and funding agreements. Audit provided the necessary checks and assurance to support the grant claim submissions.	Completed (see grant certification section below)	N/A
21	GDPR and data privacy	The Information Governance Team asked Internal Audit to provide informal advice and guidance to support the team in conducting a self-assessment against the new ICO framework. Audit will continue to provide support into 22/23 ensuring that the evidence used to support the assessment is robust and suitably retained to confirm the outcome of the assessment.	Ongoing advice and guidance and continuing into the new plan year.	N/A
22	Attendance on Boards	Advice and guidance to inform the control framework with particular Board attendance on: AEB, ICT Service Management and Integrated Corporate System.	Ongoing advice and guidance and continuing into the new plan year.	N/A
23	MCA Workstreams	Audit provided resource to workstreams to advise and assist in the development of appropriate arrangements both pre and post mayoral election, the most significant included AEB and the transfer of OPCC.	Ongoing advice and guidance and continuing into the new plan year.	N/A
24	HR	Focus on key risks and controls in HR, particularly around HR data. This work has been deferred to allow for the data cleanse and migration work to be completed as part of the ICS project for which there is separate assurance.	Deferred to 2022-23	N/A
25	Commercial	A review of any new commercial arrangements put in place, this may defer to 22/23 as these developments are not yet in place	Deferred to 2022-23	N/A

	Assurance Area	Comments	Current Status	*Assurance Level
26	Security of Assets	This review has focused on reviewing the management of the Combined Authority's New Generation Transport (NGT) asset portfolio. The audit is in progress and the outcome will be reported in the 2022-23 plan year.	In progress, carried over into 2022-23	N/A
27	Insolvencies	This review was removed from the plan as other areas are prioritised and resource is constrained, reported and agreed by the Governance and Audit Committee in January 2022	Removed from Plan	N/A
28	Inter Directorate Working - Use of SLAs/MOUs	This review was removed from the plan as other areas are prioritised and resource is constrained, reported and agreed by the Governance and Audit Committee in January 2022.	Removed from Plan	N/A

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

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 on the following;

Funding Body	Grant	Claim Value	Description
European Regional Development Fund	Investment Readiness	£389,997	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	Connecting Innovation	£421,308	4 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)	£1,250,843	4 grant claims certified, grant to support SMEs identify and implement cost effective improvements in energy and resource efficiency.
European Regional Development Fund/ European Structural Investment Fund	Strategic Business Growth	£1,575,952	4 quarterly claims certified, to provide an integrated package of advisory and financial support to help SMEs across Leeds City Region with growth potential.
Interreg SHARE-North	Art Forum Interreg/Share North/SMARTY	€191,272	Several claims focused on SME expenditure, training grants etc
Dept for Business Energy and Industrial Strategy	BEIS Core, EU, Uplift Funding	£1,028,550	3 claims certified. Grant for giving advice to businesses by the Leeds City Region LEP supporting the further development of Growth Hubs
Ministry of Housing, Communities and Local Government	Brownfield Housing Fund	£551,843	Funding with the aim of creating more homes by bringing more brownfield land into development.

Funding Body	Grant	Claim Value	Description
Department for Digital, Culture, Media & Sport	BDUK	NIL	Nil return certified
Department for Transport	LTP	£63,451,000	Capital transport expenditure provided to the Combined Authority.
Department for Transport	Bus Services Operators Grant	£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 lost income.
Dept for Business Energy and Industrial Strategy	Peer Networks	£78,826	Funding to support businesses with advice and guidance via its Growth Hub
Department for Transport	Local Transport Authority - Bus Recovery Grant	n/a	Audi to endeavour to carry out checks of funding to commercial operators is in compliance with the grant determination
Department for Transport	Coronavirus Bus Services Support Grant	£5,775,000	Certification of grant received to support allocations to support local bus services that may have experienced revenue shortfalls during COVID-19

Adult Education Budget (AEB)

The West Yorkshire Combined Authority took control of the £63 million devolved Adult Education Budget (AEB) and £2 million delegated Level 3 (Free Courses for Jobs) funding on 1st August 2021. In 2021/22 the agreed 'Readiness conditions' were completed and signed off by the Department for Education. West Yorkshire has implemented and begun delivery of AEB in a shorter timescale than any other MCA and only utilised 95% of the budget for the project, providing a saving of £56,000.

Internal Audit were active Project Board members, providing support at a strategic and workstream level, and continued to do so on the new AEB Performance Board. The Principal Auditor who has historically led on this area has also:

- **Audit and Assurance**

- Assisted in the onboarding of over 30 providers through delivery of a presentation and answering questions at 4 welcome events.
- Liaising with the Education and Skills Funding Agency (ESFA) and other MCA's on the Audit and Assurance and Fraud Investigations (AAFI) group. This has included identifying where random sample compliance visits are being undertaken by the ESFA on providers we have in common with them, and smaller discussions on more high risk providers
- Developed the Operational AEB Audit and Assurance Workstream Plan, our compliance visit testing methodology, and planned and carried out initial reviews on two providers.
- A formal review was completed by the main Internal Audit Team on Stage 2 of the Procurement process for Independent Training Providers (ITP's)- Mini Competition, which resulted in Reasonable Assurance being given in this area.
- Work has also been carried out on determining the Department for Education's assurance requirements for the funding received to ensure this can be provided on a timely basis.

- **ICT and data**

- Determined initial data report requirements for audit purposes from Power BI and ESFA source data to inform provider reviews.
- Advised on necessary controls in the new DAPS payment system and Customer Relationship Management (CRM) systems at the design and implementation stage, with a view to a formal review of these as part of the year end assurance processes.

- **Procurement and Legal & Governance**

- Advised as needed on final contract and grant agreement issues, and the Terms of Reference for the AEB Performance Group.
- Reviewed the initial Funding Rules and changes needed to these during delivery to date.
- Assessed requests for changes to allocations where these have been made.

- **Operational provider management-** worked with the new AEB Contract Management and AEB Key Account Management Teams to further develop the performance management framework and processes, including the development of a Provider Risk Assessment matrix, collaboratively working on our position on how particular funding rules should be interpreted and therefore, compliance with them evidenced by providers, and regular exceptions reporting/ monitoring carried out by operational management.

A full time Principal Internal Auditor has now been recruited to progress the provider compliance visits audit programme. Recruitment of two Senior Internal Auditors to support this work, to enable the organisation to meet its assurance requirements to the Department for

Education regarding the funding provided for the full Academic Year, has been underway for some time with little success to date. The recruitment process is still underway.

Third-Party Assurance

Treasury Management

Leeds City Council's Internal Audit information is still awaited for 2021/22, but they have provided an interim statement for inclusion in this report as follows:

We have undertaken the initial work to establish an on-going audit programme to provide timely assurance over the accuracy and completeness of treasury transactions. This tranche of work has included transactions which have occurred since the last audit, March 2020, to January 2022. Once the audit programme is embedded, we will be providing regular reporting of outcomes to the service.

Where information was available for the period under review, we can provide assurance that treasury transactions have been correctly received or paid, including that interest amounts have been calculated correctly. We will be undertaking sample testing where it is not possible to incorporate data analysis to provide assurance on the whole population of transactions.

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. Internal Audit undertake a self assessment against PSIAS annually and for 21/22 are confident that the team continue to meet the standards. As part of that review, a slightly revised Internal Audit Charter was presented to the Governance and Audit Committee for approval in January 2022. 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 processes.

Performance Indicators

PI area	PI description	Target	Actual performance
Issuing Reports	Final report on audits to be issued within 10 working days from completion of audit work	95%	65%
Recommendations	Percentage of agreed recommendations	100%	97%
Grant Claims	Grant claims processed within three working days of a fully completed file being received	90%	88%
Customer Feedback	Overall positive customer satisfaction rating (based on 7 out of 12 returned)	80%	100%
Fraud/Whistleblowing	Fraud/Whistleblowing acknowledged in 10 working days	100%	No reported cases
Fraud/Whistleblowing	Fraud/Whistleblowing reports within 10 working days of completion	95%	No reported cases

B Baker, Head of Internal Audit, June 2022