Director: Angela Taylor, Director, Resources **Author:** Russell Gott

WEST YORKSHIRE
COMBINED AUTHORITY

Report to: **Governance and Audit Committee**

Date: **3 August 2017**

Subject: **Internal Audit Progress Report**

---

1.   Purpose

1.1   To inform WYCA of the work undertaken by the Internal Audit Section.

2.   Information

2.1   In accordance with the Accounts and Audit (England) Regulations 2015 West Yorkshire Combined Authority, (WYCA) must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

2.2   This report provides details of activities undertaken by the Internal Audit Section in the period from 1 April 2017 to 30 June 2017 and provides progress in delivering the 2017/18 audit plan, audit opinions on reviews completed, summaries of significant issues identified and the status of any high priority recommendations which have not been implemented within the agreed timescales.

2.3   The Internal Audit Section has undertaken work contained within WYCA's Audit Plan through the performance and release of the following audit reports:

- Growing Places Fund
- Business Growth Fund
- Housing & Regeneration Projects
- Creditors Payments Systems
- Health & Safety
- CDM Regulations Compliance
- Growth Deal
- Risk Management
- Business Continuity
- Superfast Broadband Programme
- Prepaid Tickets & Concessionary Fares
- Main Accounting System
- Debtors Processing Systems

- Resource Efficiency Fund
- Procurement

3. How control is assessed

3.1 There are three elements to each internal audit review. Firstly, the objectives and key risks associated with the audit entity are identified. Secondly, controls which internal audit would expect to be present to mitigate risk are determined and finally an audit programme is developed to review the existence and operation of those controls through a combination of substantive and compliance testing.

3.2 An evaluation of the presence and effectiveness of controls tested is provided within each audit report along with an indication of any residual risk. This is then used as the basis for forming an audit opinion of the entity. Details of audit opinion assurance categories are provided below:

Assurance Level	Definition
Well Controlled	There is a robust control framework in place for the system. All necessary controls are in place and are operating effectively. Any recommendations made are low risk and relate to enhancements of existing controls.
Controlled	There is an acceptable control framework in place. Key controls are in place and operating effectively. Some changes to controls and how they operate would be beneficial. Recommendations made are moderate or a combination of moderate and low risk, including the development of existing controls, and do not relate to key controls.
Requires Improvement	Controls in place for some elements of the system are not always appropriate or effective or are not consistently applied. Recommendations made are of high or a combination of high and moderate risk concerning the operation of key controls.
Poorly Controlled	There is an inadequate control framework.

	Key controls are absent or not operating.
	The operation of the system is currently providing an unacceptable risk.
	Recommendations made are high risk concerning the operation of key controls.

4. Audit Resource

4.1 Members are aware that the approved Internal Audit Plan for 2017/18 produced an imbalance between the audit resource which could be provided by the in-house service and specialist external audit providers when compared with the estimated resource required to complete audit reviews identified in the plan. This situation will be further exasperated due to the requirement to recruit a new member of Internal Audit Team as a consequence of an internal appointment. The Internal Audit Manager will provide an update to the next meeting of the Governance & Audit Committee which will provide a forecast of the impact that this has had on the resourcing of the Audit Plan in 2017/18 and any subsequent actions required.

5. Summary of Audit Reviews Undertaken

5.1 **Growing Places Fund.**

Opinion
Requires Improvement

Improvements were identified in relation to project management. Factors need to be addressed such as the anticipated longevity of the fund, appetite to accept associated risk and consideration of legacy agreements.

Objectives
The review considered the presence and the operation of the following key controls:

- Arrangements for the communication, publicity and promotion of the fund along with guidance and eligibility criteria.
- Recording of enquiries, expression of interest and full business case including supporting documentation and appraisal.
- Completion and compliance of due diligence steps in line with documented process.
- Loan award including approval, terms and evidence of legally enforceable agreements.
- Financial control including drawdown procedure, repayments and monitoring of loans along with the oversight of revenue costs.

- Project management arrangements including risk, lessons learned, benefits, tolerance and exceptions reporting.
- Compliance with regulations and legislation – Freedom of Information, Data Protection and State Aid.

Principal Observations

A clearly defined end to each project should be established to trigger hand-over and review. The establishment of a benefit review plan will outline how and when a measurement of the achievement of the project's benefits can be made.

Arrangements for the handover of financial monitoring of loan repayments should be confirmed, acceptance criteria agreed and responsibilities assigned.

5.2 Business Growth Fund

Opinion
Requires Improvement
There is a need to continue developing the business grants process to improve the assurance arrangements related to the Service Level Agreement with the local authority partner.

Objectives
The audit considered the presence and operation of the following key controls:

- Grant applications are assessed in terms of funding criteria requirements. Evidence of review and decision making / approval.
- Evidence of due diligence tests undertaken for schemes which are progressed beyond initial receipt / phase.
- Evidence that schemes have been approved for funding and that appropriate information is recorded where schemes have been rejected.
- Scheme level financial monitoring and regular reporting regime is in place and operating effectively.
- Service Level Agreement is effectively managed, compliance with requirements are regularly undertaken.
- Evidence of expenditure by grant recipients is provided through source documentation and periodic independent certification.
- Evidence of the attainment of scheme objectives is provided and reviewed.
- Checks are performed at scheme exit which assess the deliverables and outputs produced as a result of funding.
- Principles of project management arrangements are clearly documented in relation to risk management, cost control and benefits realisation.
- Principles of programme level management and reporting are demonstrated.
- Measures to counter fraud are in operation including the division of duties between scheme approval, authorisation of grant payments, evidence of appropriate expenditure, management review and reporting.

Principal Observations

That user system access rights to the Evolutive system be identified and documented within the Business Growth procedures.

That appropriate user access privileges are enforced and that controls are applied to detect changes to data.

That the criteria concerning the eligibility of funding is clearly stipulated within written procedures and consistently applied.

5.3   **CDM Compliance**

Opinion

Requires Improvement

Arrangements for compliance with CDM Regulations were found to be sufficient for the specific contractor observed for the purpose of this review. However, there is a lack of effective corporate oversight to ensure that these required arrangements are in place for all eligible contractors.

Objectives

The review considered the presence and operation of the following key controls:

- Collation and retention of key contractor documentation.
- Approvals on key contract documentation.
- Completion of contractor personnel checks.
- Completion of management checks on contractor performance.
- Corporate oversight and centralised collation of key contractor documentation.

Principal Observations

That arrangements are considered for the centralised record system. This may involve creating a file system on a shared drive where contract managers are required to save their electronic documents, therefore ensuring the ongoing validity of the hyperlinks. Alternatively, the authority may wish to consider embedding documents in the spread sheet or utilising record management software.

5.4   **Growth Deal**

Opinion

Requires Improvement

Management have developed a plan to address significant under-spends on the Growth Deal and Transport Scheme. Some improvements have already been made. However there are a significant number that have yet to be implemented.

Objectives

The review considered the presence and the operation of the following key controls:

- The Governance Structure (WYCA, Investment Committee and the Transport Committee).
- The Assurance Framework.
- Programme management, monitoring and reporting arrangements.
- Identification of Growth Fund expenditure and confirmation this is for capital investment and Growth Deal funding objectives.
- Programme risk management arrangements.
- Role of WYCA's Leadership Team.

Principal Observations

That reports are presented to the Investment Committee at least quarterly regarding spend against all schemes and programmes.

That WYCA closely monitor the improved arrangements which have recently begun to be implemented. As a result, implementation dates should be set for all key improvements and processes, and reported to members quarterly.

5.5 **Debtors Processing Systems**

Opinion

Requires Improvement
A significant debt, the details of which had been provided to the bus operator's liquidators, was not written off at the 2015/16 year-end. Procedures should be developed to deal with bus operators who develop financial health issues and subsequently go into liquidation

Objectives

The review considered the presence and the operation of the following key controls:

- Authorisation of Debtor accounts raised
- Separation of processing between the creation and maintenance of debtor records and the processing of payments.
- Unique and sequential identification controls for sales orders and debtor invoices.
- Independent reconciliation of debtor account records with income received.
- Monitoring and management of debtor accounts including arrangements for debt recovery.
- Procedure and authorisation for debt write-off.
- Compliance with requirements laid down in Contract Standing Orders & Financial Regulations.

Principal Observations

In relation to a debt concerning an organisation which entered into administration in 2015, consideration should be given to including the following information in the Annual Bad Debts Report:

- the background to the debt; and
- the reasons why it was not written off at the end of the 2015/16 financial year.

There should be a comprehensive financial health assessment/check carried of certain operators (depending on size of provider and value of contract) before a bus contract is awarded to them. Consideration should also be given to repeating such financial health assessments/checks when such is viewed appropriate.

5.6 **Procurement**

Opinion
Requires Improvement.
Improvements are required in the quality of information provided to support the approval of the award of tenders and the control of costs associated with contracts awarded through competitive tendering processes.

Objectives
The review considered the presence and the operation of the following key controls:

- Compliance with Contracts Standing Orders, Financial Regulations and EU directives relating to category B, C, D and E requirements.
- Request for Decision papers are clear and comprehensive and the contents support the paper's recommendation.
- The ordering system is used in an appropriate manner.
- Monitoring, maintenance and cost control of existing contracts WYCA is getting value for money in relation to purchases made through tenders and quotes.
- Adequate written procedures are in place to support the ordering system.

Principal Observation
When considering the approval of the award of tenders, the Request for Decision papers produced for the Leadership team should always:

- specify the proposed contract sum and the proposed contractor in both its Recommendation and Decision Required Sections;
- provide details of the tendering process followed and its outcomes, that is, number of tenders obtained; tender prices and overall evaluation scores;
- make clear in those circumstances where the lowest tender submitted has not been accepted, why the proposed contractor has been selected; and
- provide details when viewed relevant, of the proposed contractor's past and current involvement with WYCA.

To ensure that evidence to support each tendering exercise is readily available for independent review and increase transparency, it is recommended that the Purchasing Team should take part, be consulted and maintain records for every contract put out to tender.

To ensure that there is a clear audit trail from the Request for Decision paper to the Proactis Order, the latter should always reflect the agreed tender price which was approved by the Request for Decision paper.

If either the budget-holder or person associated with the purchase order raises a Note on Proactis expressing concerns about the invoice, then there should be a clear mechanism which suspends the payment of the invoice until the Note has been updated by its author to provide evidence that the concerns expressed have been addressed.

5.7 **Risk Management**

Opinion
Requires Improvement
In the main, the elements of an effective risk management framework are present but the fundamentals are not consistently applied.

Objectives
The review considered the presence and the operation of the following key controls:

- Risk appetite, tolerances and constraints identified.
- Established risk architecture and risk escalation procedures.
- Developed risk awareness culture.
- Risk assessments and protocols in place for the management of risks.
- Significant risks and key risk indicators identified and managed.
- Sources of assurance in risks identified to the Authority.
- Risk Maturity.

Principal Observations
The risk appetite statement should be presented to the Governance and Audit Committee on an annual basis for approval.

The Risk Manual should make it clear the process through which risks can be escalated. The existing management groups should be used to provide the structure for this and regular review of risks at service and directorate level should be undertaken to identify any new and emerging risks.

WYCA should look to identify and coordinate all risk records maintained and introduce a minimum timescale for review of service, directorate and corporate level risks.

Reviews should be scheduled so as to ensure that risks are updated ahead of any management group meeting at which risk management is to be considered or meeting of the Governance and Audit Committee (in the case of corporate risks).

Now that the organisation's objectives have been defined through the Strategic Economic Plan and corporate plan, a corporate risk register must be produced to reflect the key strategic risks to the authority. The corporate risk register should be reported at least bi-annually to the Governance & Audit Committee.

5.8   **Business Continuity**

Opinion

Requires Improvement
Whilst elements of Business Continuity and Disaster Recovery arrangements are present, there are concerns over the overall management and coordination.

Objectives
The audit considered the presence and operation of the following key controls:

- There is a business continuity management system.
- There is a periodic backup of all necessary data files and application programs, stored in a suitable off-site location.
- Risk assessment is carried out periodically.
- There is a disaster recovery plan.
- There is a business impact analysis for service areas.
- All service areas have an incident management plan.

Principal Observations
A business continuity policy that includes a section on disaster recovery should be developed. This would include clear roles and responsibilities for the overall management of business continuity arrangements, including how this impacts on disaster recovery. It should also set out a clear review and maintenance programme/schedule.

A risk assessment needs to be carried out which will inform the disaster recovery approach. This should be drawn from the work carried out on business continuity management, and reflect the needs of the organisation as whole. Develop, implement, and adhere to a disaster recovery plan for the IT functions at WYCA.

5.9   **Superfast Broadband Programme**

Opinion

Requires Improvement
There is a need to continue developing project management and governance arrangements, linking risks and issues at all levels of the project

Objectives
The review considered the presence and the operation of the following key controls:

- Legal agreements in place for managing compliance arrangements with the programme.
- Agreed partnerships arrangements in place and established protocols.
- Agreed Service Level Agreement in place with Leeds City Council as the delivery authority.
- Contract compliance checks performed in relation to Milestone to Cash process and quarterly grant claims.
- Project management arrangements in place for managing risks and issues, tolerances, reports issued to the Project Board.
- Grant payment procedure for processing quarterly and annual claims.
- Separation of duties in terms of processing and approval of grant claims.
- Financial arrangements for year end in terms of compliance with the BDUK contract.

Principal Observations
That the service level agreement with the Local Authority partner for services required to support the delivery of this programme is put in place.

5.10 **Prepaid Tickets & Concessionary Fares**

Opinion
Controlled.
There is an acceptable control framework in place although some changes to controls around data security, management of ticket stock and alignment of procedures would be beneficial.

Objectives
The review considered the presence and the operation of the following key controls;
- Evaluate new processes established for ticket sales made through payzone outlets and corporate sales systems.
- Daily ticket sales cash reconciliations for Travel Centres.
- Adequate segregation of duties and access rights for all back office systems.
- Stock reconciliations performed for all ticketing systems interfacing with the back office.
- Agent sales are correctly calculated in terms of sales and commissions and evidence of review.
- Products that interface with the back office follow the relevant business rules.
- Payzone income is accurately posted into the corporate financial management system.
- Review and approval of the reconciliation of the prepaid ticket pool.
- Review and approval of concessionary fares.

Principal Observation
That documented processes be revised and updated to identify all key control reconciliations with clear links provided to supporting evidence.

5.11   **Main Accounting System**

Opinion

Well Controlled
There is a robust control framework in place for the system. All necessary controls are in place and are operating effectively

Objectives
The review considered the presence and the operation of the following key controls:

- Interfaces with supporting systems.
- Separations of duties between officers responsible for the input and review of data.
- Bank reconciliation performed on a regular, monthly basis and are reviewed by a senior officer.
- Re-perform a bank reconciliation for general operating account and prepayment account.
- Verify a sample of transactions on main accounting system (MAS) back to source documentation.
- Review suspense and holding accounts and ensure that they are regularly reviewed and items investigated promptly.
- Review journals to ensure that they were authorised and input into MAS by staff independent of those originating or authorising the transaction.
- Review and monitoring of postings within MAS.
- There is an appropriate chart of accounts that meets the WYCA's accounting requirements.
- Budgets identify any significant amendments to the budgets during the year and check that the amendments were referred to and approved.
- Confirm that controls ensure procurement commitments are confirmed as being within budget before they are processed.
- Ensure that regular stewardship reports are made to WYCA.

Principal Observations
There were no significant issues identified.

5.12   **Housing & Regeneration Projects**

Opinion
Controlled
There is an acceptable control framework in place. Key controls are in place and operating effectively although some changes to controls and how they operate would be beneficial.

Objectives
The review considered the presence and the operation of the following key controls:

- Arrangements for the communication, publicity and promotion of the programme along with guidance and eligibility criteria.
- Receipt of outline and full business case including associated appraisal and approval.
- Completion and compliance of due diligence steps in line with documented process.
- Loan award including approval, terms and evidence of legally enforceable agreements.
- Financial control including drawdown procedure, repayments and monitoring of loans along with the oversight of revenue costs.
- Project management arrangements including risk, issue, benefit, tolerance and exception reporting.

Principal Observation

The project management team should ensure timely receipt and review of project monitoring information from bodies in receipt of loan funding

5.13 **Creditors Payments**

Opinion
Controlled

Controls were found to be present and operating however the reconciliation of transactions with entries through WYCA's bank account was not performed on a timely basis at the time of this review.

Objectives

The review considered the presence and the operation of the following key controls:

- The authorisation and certification of invoices and credit notes.
- Independent internal review of payment runs.
- Arrangements for the secure holding of cheques and adequacy of supporting procedures and records.
- Enforced segregation of system access rights and separation of duties.
- Bank mandate accurately reflects officers' responsibilities/authority and is up to date.
- Reconciliation of transactions through Dream compared with movements on the general operating bank account.
- BACs payments processes are secure and independently reviewed.
- Creditor payment systems are secure and backed up at frequent intervals.
- Arrangements for the processing of purchase card transaction are secure.
- Written financial procedures are maintained and are up to date.
- Compliance with Contract Standing Orders and Financial Regulations.

Principal Observations

The reconciliation of the General Operating Bank Account with the nominal account should be maintained on a timely basis.

5.14 **Health & Safety**

Opinion
Controlled

There is an acceptable control framework in place. Key controls are in place but are not always operating effectively.

Objectives

The audit considered the presence and operation of the following key controls:

- The organisation has a health and safety policy which is clearly communicated to members of staff.
- Good risk management arrangements in place to ensure that hazards are minimised.
- Adequate arrangements for recording accidents, illness and first aid.
- Set up of emergency fire and bomb procedures.
- Reporting of certain injuries, diseases and dangerous occurrences to the enforcing authority (RIDDOR).
- Adequate arrangements are in place for co-ordinating external inspections regarding outcomes and findings.

Principal Observations

That emergency evacuation procedures for all WYCA sites are designed and tested regularly to ensure that they are appropriate for the various properties and the resources available at each site. These procedures should then be stored in easily accessible areas both on site and co-ordinated on corporate network drives.

5.15 **City Cycle Ambition Grant**

A review was undertaken of the programme and contract management arrangements in relation to city cycle superhighway project which is part of a programme of works funded through the City Cycle Ambition Grant. It was established that WYCA have a framework in place whereby Local Authority partners perform aspects of contract procurement and management under the delegation of the Programme Board. The review identified that works on phase 1 of this project were complete and officers were now engaged in determining the final account with the main contractor.

The review concluded that information concerning the progress and costs relating to this project were provided on a regular and timely basis to the Programme Board. Procurement of main contractor construction works had been achieved through competitive tendering processes and the contract awarded on a target cost basis which provided protection and a level of cost certainty to the project. However,

there were a number of lessons learnt which should be considered the Programme Board and Portfolio Management Office functions.

6.   Audit Recommendations

6.1   Progress in implementing all audit recommendations is monitored through Internal Audit's outstanding recommendations tracking system. Information relating to overdue high priority recommendations is provided in **Appendix 2** of this report.

7.   Work in Progress

7.1   In addition to the completion of scheduled audit reviews provided in section 5 of this report, a significant number of audit reviews are currently in progress and include:

Travel Centre Processes
Gifts & Hospitality
LTP Programme Management
Resource Efficiency Fund
Anti-Fraud Corruption & Bribery Policy
Money Laundering Policy
Members Code of Conduct

Further information concerning the status of each of these reviews is provided within **Appendix 1**.

Details of the respective audit opinions, objectives and any significant issues arising from these reviews will be provided to this Committee once this work has been completed and reports are produced.

8.   Financial Implications

8.1   The costs of the audit team have been included in approved budget for the year.

9.   Legal Implications

9.1   None relating directly to the Internal Audit function.

10.   Staffing Implications

10.1   The performance of some elements of the Audit Plan requires the buying-in of third-party specialist services.

11.   External Consultees

None.

12.   Recommendations

12.1   That the Internal Audit progress report be noted.

12.2   That the Internal Audit Manager provide an update on Internal Audit resourcing requirements to the next meeting of the Committee.

13.   Background Documents

None.