

West Yorkshire Combined Authority

Internal Audit Annual Report and Opinion 2017/18

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
- 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 2017/18 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 2017.

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 was updated in 2016 and 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, is one of the key elements to consider when compiling the AGS.

Scope of Internal Audit Opinion 2017/18

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 2017/18 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 2018.
- 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 2017/18

From the work undertaken during the financial year 2017/18 and taking into account other sources of assurance, Internal Audit have reached the opinion that ,overall, the Combined Authority's framework of control and governance is operating adequately. However, risk management arrangements continued to be under development during 2017/18, therefore only partial assurance can be provided in respect of these matters.

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 issues concerned the consolidation of all risk registers throughout the organisation, the structure of reporting and escalation of risk be clearly provided within the corporate risk management strategy, the development of a risk aware culture and introduction of training and workshop initiatives to support this process. It was also highlighted that

additional guidance was required to support the Risk Management Strategy particularly in relation to the identification, assessment and treatment of risk.

ICT Business Continuity/Disaster Recovery

Improvements were identified in respect to the development of disaster recovery guidance. The review established that action is required to progress regular test restores and back-up processes at all sites where the Combined Authority's servers are located.

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.

Examples of this include an officer led review of internal governance arrangements, 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.

Internal Control

Data Security/Data Protection

A follow up review of internal audit recommendations identified a number of key issues which were not fully resolved. These included the documentation of business critical systems, improvements to the monitoring and reporting of key security settings, the development of ICT back-up and recovery policy and the performance of periodic test restores of key programmes.

Programme/Project Management Assurance Framework

Internal Audit have provided opinion and assurance concerning the following programmes and projects;

- Local Transport Plan
- Resource Efficiency fund
- Housing & Regeneration
- Superfast Broadband
- Growing Places Fund
- Business Growth Programme

The results of these reviews highlighted a number of common themes associated with programme and project management arrangements. These included the development of project governance arrangements and the reporting of financial performance within some projects.

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 2017/18, despite numerous attempts, 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.

Overall Internal Audit complies with the requirements of the PSIAS and Local Government Application Note. However there are some areas where the Combined Authority have accepted non-compliance with the standards or that require development.

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.

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

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

Areas for Action

2050 Coordination - Assurance mapping

The Chief Audit Executive has identified and assessed all areas of assurance within the audit universe. However, it is accepted that assurance mapping should be developed as organisational objectives and risk management arrangements mature and as part of the process of identifying and determining the approach to using all sources of assurance.

2110 Governance - Ethics

Internal audit have not performed a specific review of the Combined Authority's ethics-related objectives, programmes and activities. The Chief Audit Executive will continue to monitor the level of audit risk in this area and update the Audit Plan to accommodate this work if this becomes necessary.

1210 Proficiency – CMIIA

The Chief Audit Executive is an experienced audit professional and a member of the Chartered Institute of Internal Auditors Heads of Internal Audit service. During 2018 he has applied for full CMIIA status.

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 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 2017/18 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	£314*	£308
Mainline Audit Days Per £m Turnover	1.54	1.80
Cost Per Auditor	£42,571	£52,577
Days Per Auditor	160	176
Total Cost per £m Turnover	£536	£544

Annual Audit Plan

Completion of audit reviews identified within the plan – Target	100%
Actual performance	91%

Client Feedback

Post audit client questionnaire ratings of “2” or better - Target	90%
Actual performance	78%

Issuing Reports

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

* It should be noted that throughout 2017/18 there have been difficulties relating to the recruitment of personnel to the internal audit function. This has resulted in the requirement to engage a number of internal auditors at short notice through agency arrangements. The costs of these measures have impacted on the overall expenditure of the function and corresponding benchmarking comparisons.

² CIPFA auditing benchmark comparator 2017/18 Local Authorities in England

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 2017/18 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	5	2	
2	Throughout the audit process I was kept informed of the work being done and issues arising.	5	4	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	4	4	
4	Internal audit staff demonstrated a pragmatic approach to developing solutions to issues identified during the audit.	4	6	2	
5	The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses.	3	4	5	
6	Internal audit staff acted in a professional manner throughout the assignment.	8	4		
Scale ; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 Strongly disagree					

The results are slightly disappointing when compared with surveys undertaken in previous years. This may be due to the changes in audit personnel and their relative lack of exposure to the Combined Authority's operations. In addition, delays have been encountered in capturing management responses to audit observations.

Audit Plan 2017/18

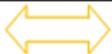
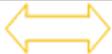
Details of the work performed by Internal Audit in 2017/18 and audit opinions provided are set out below.

Further information concerning the definition of internal audit assurance opinion categories is provided in the appendix to this report.

Audit Area	Assurance	Opinion	Direction of Travel
City Cycle Ambition Grant	Consideration of procurement arrangements and officer appointments	Controlled	
LTP Capital Programme Management	Assessment of the extent of compliance with WYCA's assurance framework including arrangements to identify, monitor, control and report on the Capital Programme.	Controlled	
C.A. Members Code of Conduct	Review of compliance with the requirements of the code of conduct including declarations of interest	Controlled	
Code of Corporate Governance	Assessment to ensure compliance with applicable standards and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation.	Controlled	
Gifts, Hospitality & Interests	Assessment of arrangements in place for officers' declarations of gifts, hospitality and interests. Independent examination of records.	Well Controlled	
Pro –Active Anti- Fraud Exercise	Review of network system access	Controlled	
Access Innovation Fund Certification of claims	Head of IA assurance. Periodic report and claim review and certification	Controlled	
Growth Deal Fund Certification of claims	Head of IA assurance. Periodic report and claim review and certification	Controlled	
Growth Hub Grant	Head of IA assurance. Periodic report and claim review and certification	Controlled	

Audit Area	Assurance	Opinion	Direction of Travel
Certification of claims			
Data Hosting Arrangements	To provide assurance on the delivery of robust service in line with contract and ensure adequate management controls exist relating to operations and the security of data including recovery if necessary.	Requires Improvement	↔
Resource Efficiency Fund	Head of IA assurance. Periodic report and claim review and certification	Controlled	↔
SCIP Programme	Provision of independent, 3rd line of defence programme assurance in respect of Smart transactions Web and development of on-line payment facilities	Requires Improvement	↔
Resource Efficiency Fund	Governance framework, operation & application of assurance framework, programme management, monitoring & reporting, cost control, risk management.	Controlled	↔
Growing Places Fund	Evaluation of expressions of interest, business case, due diligence, loan agreements, drawdown arrangements, monitoring of loans. Administration of loans, evaluation criteria and monitoring procedures.	Requires Improvement	↔
Cashbook/Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances.	Controlled	↔
Local Transport Plan	Head of IA assurance. Periodic report and claim review and certification Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	Controlled	↔
Interreg SHARE NORTH Certification of claims	Head of IA assurance. Periodic report and claim review and certification	Controlled	↔
L- CREATE – ERDF & ESIF	Head of IA assurance. Periodic report and claim review and certification	Controlled	↔

Audit Area	Assurance	Opinion	Direction of Travel
Certification of claims			
Housing & Regeneration Projects	Publicity & promotion, outline business case appraisal, full basis case evaluation, due diligence, loan agreements, drawdown, programme monitoring, cost management.	Controlled	
Metro Travel Centre Operations	To review the adequacy of Ticket sales, stock, cash handling security, reconciliations & reviews performed Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations	Controlled	
Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. To include "gross cost" contracts	Controlled	
English National Concessions Travel Scheme	Validation rules for applicants, disabled and blind person applications are processed in liaison with district social services departments, robust processes and validation requirements for issuing replacements and renewals. Awareness and communication of requirements of Concessionary Bus Travel Act	Requires Improvement	
West Yorkshire + York Broadband	Processes & procedures, Certification of expenditure, Compliance with funding agreements and compliance with partnership agreements/claw back provisions.	Controlled	
Payroll & Personnel Records	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions	Controlled	
Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts.	Requires Improvement	

Audit Area	Assurance	Opinion	Direction of Travel
	Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation.		
Business Growth Programme/ Access to Capital Grants Programme	Appraisal of applications & due diligence, grant claims and payment processes, project monitoring/reporting, compliance with SLA, cost monitoring control. WYCA expenditure - over £100k Compliance with SLA for schemes administered by LCC – less than £100K	Controlled	
Prepaid Tickets & Concessionary Travel	Calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments, Haven system controls and reporting. Arrangements for accounting for stocks, cash. Consider controls for smartcard transactions. Payzone sales processing system.	Controlled	
Business Continuity	Assessment of the plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	Requires Improvement	
CDM Compliance	Compliance with The Construction (Design and Management) Regulations 2015	Requires Improvement	
Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, bleep, and payroll. VAT.	Controlled	
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls	Controlled	
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting	Controlled	

Audit Area	Assurance	Opinion	Direction of Travel
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with SOFRs, e-procurement, purchasing cards. Examination of the procurement of consultants services including an independent assessment of vfm and management arrangements	Controlled	
Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training	Requires Improvement	

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

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