

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT  
COMMITTEE**

**DATE: 17<sup>th</sup> JULY 2020**

**REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT 2019/20**

**AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)**

**1. PURPOSE OF THE REPORT**

1.1 This is the Annual Report of the Internal Audit service detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

**2. RECOMMENDATION**

2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2019/20 and formal opinion on the internal control framework.

**3. FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

**4. THE REPORT**

4.1 The Annual Internal Audit Plan for 2019/20 was presented to the West of England (WECA) Audit Committee on the 31<sup>st</sup> July 2019. This approach involved a mixture of formal audit work along with an assessment of the internal control framework to inform the plan for future years. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the WECA's internal control environment.

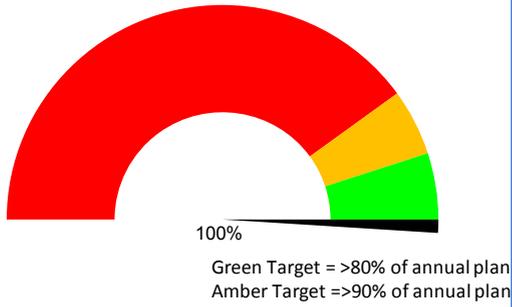
4.2 The Committee receives verbal updates at each meeting and received a formal update on delivery against the plan in February 2020. This report builds upon that update and the chart overleaf records the position as at the end of the year.

# PERFORMANCE DASHBOARD - INTERNAL AUDIT

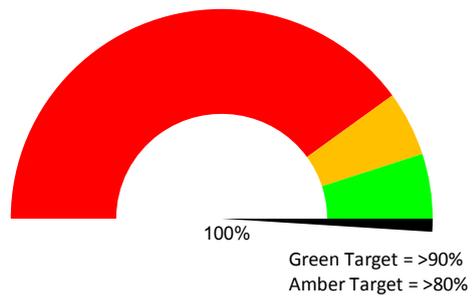
Client - WECA

Period - April 2019 - March 2020

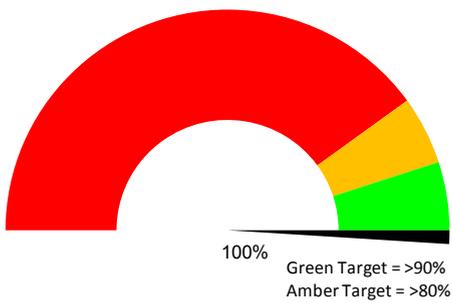
## 1. AUDIT PLAN COMPLETED



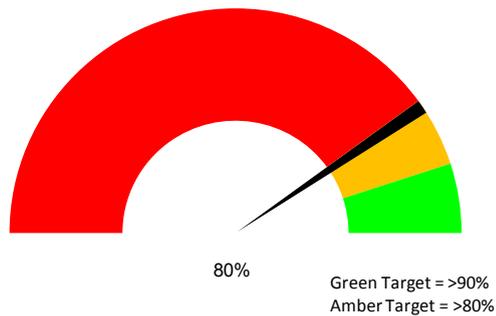
## 2. AUDITS COMPLETED IN PLANNED TIME



## 3. CUSTOMER SATISFACTION



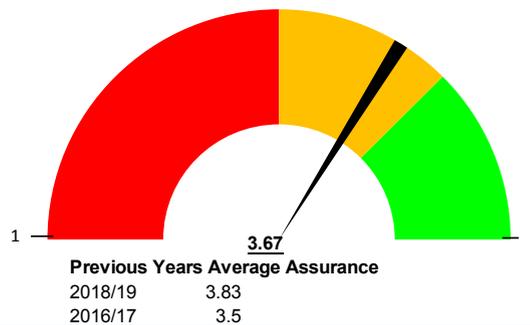
## 4. IMPLEMENTATION OF RECOMMENDATIONS



## 5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED



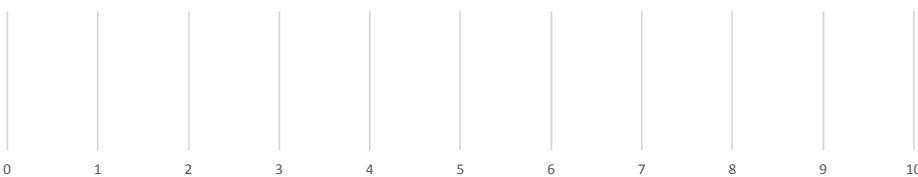
### Current Average Assurance Level



## 6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



## 7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to  
**0.0**  
Audit Days  
**2019/20**

## 8. NEW UNPLANNED WORK



Equating to  
**0.0**  
Audit Days  
**2019/20**

## PERFORMANCE SUMMARY

### 4.3 COMPLETION OF THE INTERNAL AUDIT PLAN

- 4.3.1 The performance dashboard shows that 100% of the plan is 'substantially completed'. This includes work that is either finalised or at reporting stage.
- 4.3.2 Appendix 1 records the estimated status of each audit review within the 2019/20 Audit Plan at the end of the year.
- 4.3.3 During 2019/20 it has been important to ensure that the Internal Audit Plan has remained fluid to enable the service to respond to WECA's changing risk environment.
- 4.3.4 In particular, with the implementation of the ICT and Financial System Programme and the subsequent impact on systems and resources it was important to adopt a flexible approach to our work. In consultation with the Director of Investment & Corporate Services it was agreed that many of the audits in the audit plan should be scheduled for the third and fourth quarters of this financial year to reduce the impact on the service areas and to allow for new systems and processes to become established and embedded. As a result, the focus in the first half of the year has been on providing support and guidance where necessary in respect of the ICT and Financial System Programme. In this respect, we have attended several ICT Programme Board meetings and provided guidance on the completeness and content of the suite of ICT policies and procedures.
- 4.3.4 The phasing of audit reviews towards the end of the year was further impacted by the outbreak of the COVID-19 pandemic, however we are pleased to report all work has now been completed.

### 4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 4.4.1 The percentage of audits completed within the initial allocated days is recorded at 100%. This figure was calculated based on audits recorded as being at 'Final' and 'Completed' Report stage.
- 4.4.2 The importance of completing work within the assigned number of days is monitored closely by the management team.

### 4.5 CUSTOMER SERVICE

- 4.5.1 Customer service and providing value to clients is essential to the provision of a quality internal audit service. We are pleased to report that all questionnaires completed through the Internal Audit Computer System recorded good or excellent responses and this matched feedback received verbally from individual Service Managers.
- 4.5.2 Customer feedback is initially reviewed by the Audit Manager and the scores and comments are communicated onto the relevant auditor.
- 4.5.3 Some of the comments received from this completed questionnaire are recorded below:

***'Really well thought out work with excellent support provided to the team'.***

***'The Auditor was extremely professional on all fronts. Highly competent and knowledgeable with the ability to guide us through a complex area of work in a clear and highly accurate manner'.***

***'Clear recommendations well-articulated and explained. Easy to work with and respond to'.***

## **4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

4.6.1 The dashboard records the implementation of recommendations at the time the audit was 'Followed-Up' at 80%. Due to the low level of recommendations this is however not a matter of significant concern with one high risk recommendation and 16 out of the 20 medium risk recommendations being implemented as at the time of the follow-ups. With regard to the four medium risk recommendations not implemented:

- Two recommendations have been partially implemented and will be completed once the new financial management system (Agresso) has been fully implemented (Future Bright and Counter Fraud Arrangements). This will be followed up as part of our 2020/21 Internal Audit Plan work.
- One relating to a new Corporate Project Management Process was in development at the time of the follow up and was due to be rolled out shortly after the completion of the review (Future Bright).
- One related to Fraud but given the current low level of fraud risk within WECA, management have decided not to include Counter Fraud within e-learning training modules. However, awareness of the issue and the strategy will be made via other lines of staff communications.

## **4.7 INVESTIGATIONS/ WHISTLEBLOWING**

4.7.1 During 2019/20 Audit West has not been involved in any formal investigations and there are no known whistleblowing cases. There has been some low level work around potential scams and Audit were informed in each case to ensure assurance was taken around the effectiveness of controls and no further action was necessary.

## **4.8 ASSURANCE LEVEL PROVIDED**

4.8.1 Appendix 1 details all the work undertaken and a summary of our opinions. There were three audit reviews substantially completed of which two have recorded an assurance level of substantial (Level 4) and one recorded an assurance level of reasonable (Level 3). Please see Appendix 2 for a summary of work completed for each individual audit area and Appendix 3 for a description of our assurance levels.

4.8.2 In addition to this formal work an overview of the due diligence undertaken when procuring the new ICT service was also undertaken. Whilst this review was not formally assessed the framework of controls for this phase of the ICT implementation programme was adequate and reasonable assurance could be provided.

4.8.3 Further to this we also supported the production of the Annual Governance Statement by reviewing all the sources of assurance and independently assessed the evidence with no significant issues identified for the statement. This was also validated by the work on our reasonable assurance model which independently assesses eight key themes of organisational health and rates them based on levels of assurance and risk. Again, there were no significant concerns to report outside of those already discussed at recent Audit Committee meetings and broadly progress continues to be positive.

4.8.4 Finally we also carried out some grant certification work on the Growth Hub. Yet again there were no significant issues from this work and the grant return was signed off.

## **4.9 UNPLANNED AUDITS / WORK**

4.9.1 There were no unplanned pieces of work during 2019/20.

## **4.10 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK**

4.10.1 The Service Director – One West (Acting as Chief Audit Executive for WECA) is required to give an opinion on the internal control framework.

4.10.2 Statement of the Chief Audit Executive - In forming an opinion on the internal control framework I have considered the work of the Audit & Assurance function as well as consideration of other assurances I can rely on and the wider governance framework and performance of the WECA.

It is my opinion that at the current time the WECA's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the WECA's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the WECA are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations and did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business-critical functions or any identified fraud. We remain alert however to the pandemic outbreak towards the end of the financial year which could significantly impact during 2020/21;
- There were no poor or weak ratings from Audit Work;
- The Audit Committee's support in ensuring this balance and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.
- Finally, I can confirm that the Internal Audit Charter has been reviewed, is still relevant and up to date and we are able to exercise our independence to perform our role against our professional standards.

### **Consultation:**

5. The Annual Report refers to facts and opinions that have been included within individual Audit reports which were distributed to, and agreed with, senior managers. The service meets regularly with the Senior Management Team and the Director of Investment & Corporate Services to update them on the audit plan and ensures the plan continues to reflect the risks.

### **Public Sector Equality Duties:**

6. No significant implications

### **Economic Impact Assessment:**

7. No direct implications.

### **Finance Implications:**

8. No direct implications, cost of service within existing budgets

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**Legal Implications:**

9 No direct implications

**Land/Property Implications;**

10 No direct implications.

**Human Resources Implications:**

11 No direct implications

**Recommendation:**

12 To note the report, statutory opinion on the Internal Control framework and outcome of Internal Audit work undertaken in 2019/20.

**Report Author:**

**Audit West – Jeff Wring**

**West of England Combined Authority Contact: Malcolm Coe – Director of Investment & Corporate Services**

**Background Papers**

Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: [democratic.services@westofengland-ca.gov.uk](mailto:democratic.services@westofengland-ca.gov.uk)

**Appendix 1 - Audit Plan End of Year Position Statement – 2019/20**

Audit Area	Assurance Level or Risk Rating
Treasury Management	Level 4 – Substantial Assurance
Land Acquisition Fund	Level 4 – Substantial Assurance
ICT Financial Systems Programme Procurement	Position Statement - Reasonable Assurance
ICT Financial Systems Implementation	Level 3 – Reasonable Assurance
Annual Governance Statement – Review	Satisfactory
Grant Certification – Growth Hub	Satisfactory
Reasonable Assurance Model – Corporate Governance	Assurance & Risk Rating – Amber
Reasonable Assurance Model – Financial Management	Assurance & Risk Rating – Amber
Reasonable Assurance Model – Risk Management	Assurance & Risk Rating – Amber
Reasonable Assurance Model – Performance Management	Assurance & Risk Rating – Amber
Reasonable Assurance Model – Procurement	Assurance & Risk Rating – Amber
Reasonable Assurance Model – Information Management	Assurance & Risk Rating – Amber
Reasonable Assurance Model – Asset Management	Assurance & Risk Rating – Green
Reasonable Assurance Model – Project Management	Assurance & Risk Rating – Amber
<b>Follow – Up Area</b>	<b>Original Assurance Level</b>
Follow – Up – Risk Management	Level 3 – Reasonable Assurance
Follow – Up – Control Account Reconciliation	Level 4 – Substantial Assurance
Follow – Up – Bank Account Reconciliation	Level 4 – Substantial Assurance
Follow – Up – Future Bright	Level 4 – Substantial Assurance
Follow – Up – Counter Fraud Arrangements	Level 3 – Reasonable Assurance
Follow Up – Adult Education Budget	Level 4 – Substantial Assurance

## Appendix 2 – Highlight Summary of Audit Reviews Undertaken

### • Treasury Management –

The following key control objectives were reviewed:

- To ensure that management and staff understand and comply with formally adopted systems / processes which are designed to manage the Authorities cash flows, borrowing and investments and associated risks.
- To ensure Treasury Management activities are carried out in accordance with the Authorities annual Treasury Management strategy, standing orders and financial regulations (including the CIPFA code of practice for Treasury Management).
- To ensure that the approval and management of investment Counterparties and limits is effectively managed and controlled to mitigate any potential financial losses.
- To ensure management reporting information / indicators are timely and sufficient to monitor treasury performance.
- To ensure risks related to investments are continually monitored and managed.

The review acknowledged that since the transfer of the treasury management service from B&NES in April 2019 the processes and controls adopted by the treasury management team have evolved as they adapt the B&NES processes for their own purposes. The review identified that overall key controls were found to be appropriate and operating as they should, although there were a few key areas for improvement:

- There are no formal operational procedural guidance manual/notes to support the high-level Treasury Management and Investment Strategy which would help to ensure that the treasury management processes are operated as consistently, efficiently and effectively as possible.
- The Corporate Services Risk Register does not include any risks associated with the management of a Treasury Management function.
- The monthly Treasury Management performance dashboard provided to the Section 151 Officer does not include details of actual performance against the Treasury Management Performance Prudential Indicators (agreed as part of the Treasury Management Strategy).

However, cash flow forecasting is accurately undertaken daily to ensure that liquidity levels are maintained, and investment interest maximised. In addition, investments have been made in accordance with the WECA Treasury Management & Investment Strategy adhering to investment limits and advice from Arlingclose.

### Land Acquisition Fund -

The following key control objectives were reviewed:

- To ensure that all requests for LAF funding are adequately and consistently assessed, approved and awarded in line with grant conditions and the WECA Investment Fund Assurance Framework.
- To ensure that all LAF grant claims received are recorded, monitored and reported on in an accurate and timely manner.
- To ensure the LAF payment transactions have been verified, appropriately approved in accordance with the scheme of delegations and accurately paid.

The review identified that overall, key controls were found to be appropriate and operating well, although there were a few areas for improvement. The principle of the LAF is that it should recycle as a revolving acquisition fund and as a result it was recommended that regular updates on the progress of the project against predefined milestones should be established to ensure the projects intended and agreed outcomes are realised.

Whilst there was a transparent assessment and scoring criteria in place for LAF business cases, individual assessors scores and the rationale for allocating those scores could not always be evidenced.

Overall, the process is well constructed and effectively managed with grant payments being validated, correctly approved and tracked.

- **ICT Core Financial Services Implementation -**

The audit reviewed the following key control objectives:

- To ensure the data migrated to the new financial systems (Payroll, AP & AR) is complete and accurate.
- To ensure that the design of the new ICT financial solution results in payments that are accurate, timely, and are legitimate business expenditure. This will include a review of the control framework in place for raising requisitions, generating purchase orders and paying suppliers ensuring that any spend is subject to an appropriate level of approval and segregation of duties.
- To ensure that the design of the new ICT financial solution results in accurate and timely request for payment from debtors and these debts are effectively monitored and recovered.
- To ensure starter, leaver and variation data is correctly recorded on the payroll system to enable accurate and timely payments.

At the time of the review the Accounts Payable (AP) and Accounts Receivable (AR) processes were in the design / testing stage while the Payroll solution had been fully implemented with payroll runs commencing in November 2019. When the Audit Brief was agreed the intention was to produce an interim briefing paper to report on the findings of the Payroll review plus any reportable matters relating to the AP & AR system design and implementation. Following this it was intended that live testing of the AP and AR systems would be undertaken during April 2020 with the results of this testing reported in an Audit Assurance Report. Unfortunately, due to the outbreak of the COVID-19 pandemic and agreed amendments to the live date for the AP and AR systems the live testing of these systems has not been possible. However, time has been allocated in the 2020/21 Annual Audit Plan to undertake this work.

The review identified that overall, key controls were found to be appropriate and operating satisfactorily, although there were some areas for improvement.

The Accounts Payable, Accounts Receivable and the General Ledger elements of the implementation were originally due to complete in September 2019, but this would not have provided sufficient time to undertake controlled Data Migration and User Acceptance Testing amongst other project and end of year tasks. Consequently, the project plan was amended and a new revised "go-live date was agreed of 1st April 2020. Although the financial system did not go live until a week later on 8th April 2020, there are still some issues, related to User Acceptance Testing and Data Migration which are currently being addressed and as a consequence these have not been formally signed off.

The Payroll and HR elements of the project were successfully implemented in accordance with the transition plan and current data was correctly migrated to North Somerset Council from B&NES to enable the payroll to be run by the new provider in November 2019. Unfortunately, the archived payroll data has not been transferred across to WECA from B&NES and as a result the Data Migration 'Sign Off' has not taken place.

Information provided to the new payroll provider regarding new starters (7), variations (7), leavers (3) and expenses (24) had been accurately input to iTrent for the 41 cases reviewed.

### Appendix 3 – Audit Opinion Descriptions

Assurance Rating	Opinion
<b>Level 5 – Full Assurance</b>	The systems of internal control are excellent with a number of strengths and full assurance can be provided over all the areas detailed in the Assurance Summary
<b>Level 4 – Substantial Assurance</b>	The systems of internal control are good and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
<b>Level 3 – Reasonable Assurance</b>	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
<b>Level 2 – Limited Assurance</b>	The systems of internal controls are weak and only limited assurance can be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
<b>Level 1 – No Assurance</b>	The systems of internal controls are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee