



REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 28th April 2022

REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT 2021/22

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

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.

Impact of the Covid-19 pandemic

2. Although there have been limitations to the extent and method of audit testing due to continued home working recommendations throughout 2021/22, many online/digital auditing processes are now well established. Whilst measures continue to be taken to improve remote auditing processes, this nonetheless has continued to impact on the level of assurance that can be provided for the areas reviewed during the year.

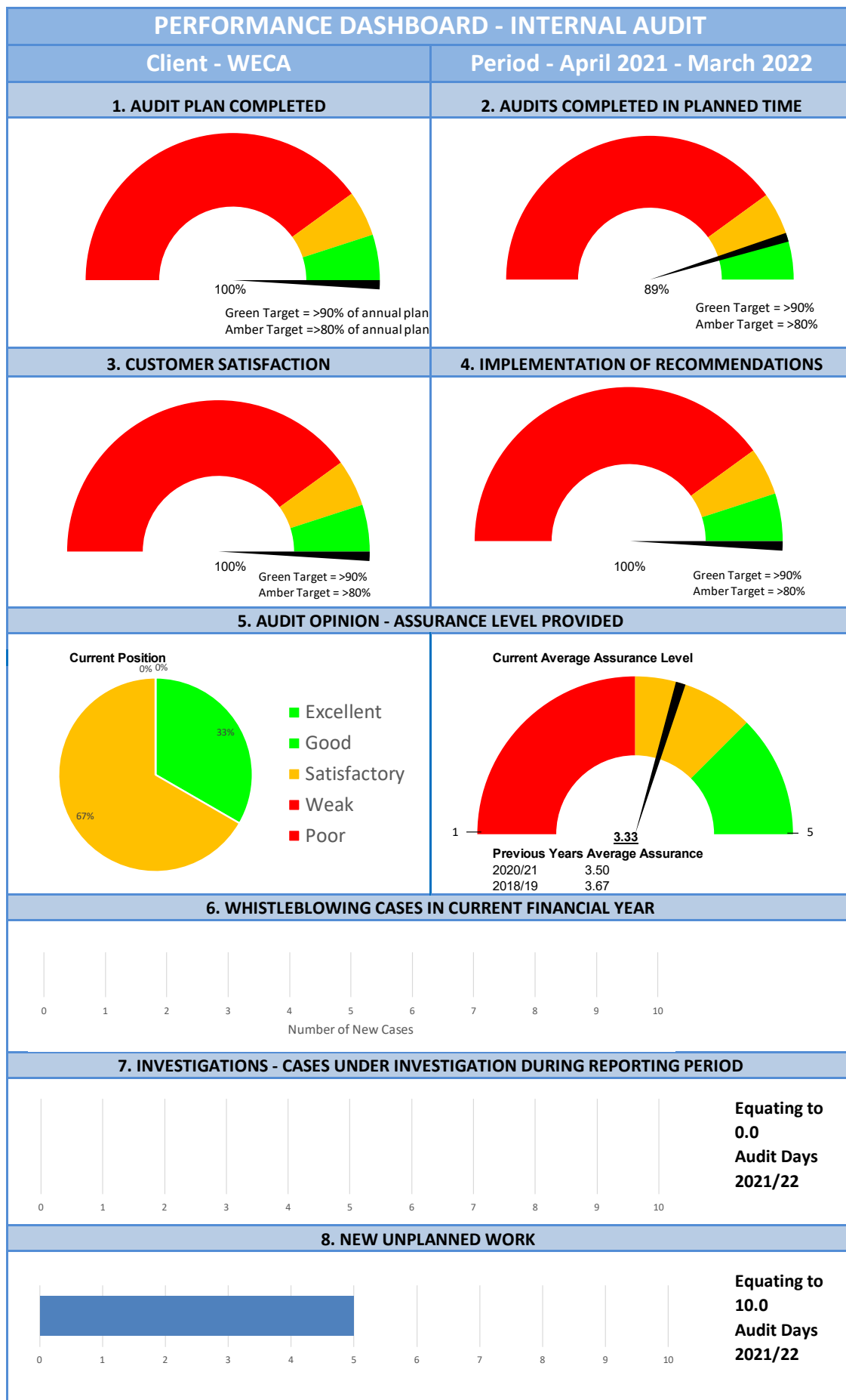
Recommendation

3. The Audit Committee notes that Internal Audit Report 2021/22 and formal opinion on the internal control framework.

Background / Issues for Consideration

4.1 THE REPORT

- 4.2 The Annual Internal Audit Plan for 2021/22 was presented to the West of England (WECA) Audit Committee on the 22nd September 2021. 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.
- 4.3 The Committee receives verbal updates at each meeting and received a formal update on delivery against the plan in December 2021. This report builds upon that update and the chart overleaf records the position as at the end of the year.



5. PERFORMANCE SUMMARY

5.1 COMPLETION OF THE INTERNAL AUDIT PLAN

- 5.2 The performance dashboard shows that the Audit Plan is complete This includes work that is either finalised or at reporting stage. One review (Concessionary Travel) is in the final stage of reporting and one review (Climate Emergency Action Plan) will be delivered in the first half of 2022/23 once the new Strategy has been implemented.
- 5.3 Appendix 1 records the status of each audit review within the 2021/22 Audit Plan at the end of the year.
- 5.4 During 2021/22 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.
- 5.5 In particular, with the impacts of the COVID-19 pandemic and the Mayoral Election, the Audit Plan was not formally approved until the Audit Committee in September 2021. Therefore, work in quarters 1 and 2 focussed on mandatory reviews such as grant certification audits.

6.1 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 6.2 The percentage of audits completed within the initial allocated days is recorded at 89%. This figure was calculated based on audits recorded as being at 'Final' and 'Completed' Report stage.
- 6.3 Whilst there have been individual audits which have exceeded the original budget, the overall plan remains within the agreed allocation.

7. CUSTOMER SERVICE

- 7.1 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.
- 7.2 Customer feedback is initially reviewed by the Audit Manager and the scores and comments are communicated onto the relevant auditor
- 7.3 Some of the comments received throughout the year across the spectrum of audit work are recorded below:

“Working with (the auditor) was straightforward and easy, she was clear with all her requests and set out how the process would work.”

“A useful audit which was well conducted and reported.”

8. IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

- 8.1 The dashboard records the implementation of recommendations at the time the audit was 'Followed-Up' at 100%. This is in line with last year's implementation rate, and an improvement from 80% implementation from 2019-20.

9. INVESTIGATIONS/WHISTLEBLOWING

- 9.1 During 2020/21 Audit West has not been involved in any formal Whistleblowing investigations, although it continues to provide management with advice and guidance on fraud and corruption threats. Examples of advice provided includes sharing of fraud alerts and fraud bulletins for distribution within WECA to alert staff.

10. ASSURANCE LEVEL PROVIDED

- 10.1 Appendix 1 details all the work undertaken and a summary of our opinions. Of the twelve completed audit assignments, nine were not suitable for an assurance opinion, for example compulsory grant certification reviews which require only an assurance letter for Central Government, and advisory work when reviewing new processes prior to, or during implementation. Of the three completed audit reports, two recorded an assurance level of level 3 – reasonable assurance and one received level 4 – substantial assurance. Please see Appendix 3 for a description of our assurance levels.
- 10.2 In addition to the formal audits, two advisory pieces of work were carried out, with one reviewing Cyber Security arrangements and the other reviewing compliance of the handling of a Whistleblowing case which took place across 2020/21 and early 2021/22. The final non-standard audit assignment used specialist data analytical techniques and software to provide assurance over the functioning of the Accounts Payable and Accounts Receivable systems, including the aim of identification of errors or anomalies.
- 10.3 Further to this, Internal Audit 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, aside from the general risks and impacts of the COVID-19 pandemic. This was also validated by the work on Audit West's 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.
- 10.4 Finally, Internal Audit has also carried out an expanded range of grant certification work, as noted above, with six individual reviews undertaken, covering functions such as the Growth Hub, Future Transport Zone and the Bus Subsidy Revenue Grant. No significant issues were identified in any of these reviews and the grant returns were signed off.

11. UNPLANNED AUDITS / WORK

- 11.1 There were five unplanned pieces of work carried out in 2021/22 with three being grant certification reviews as noted above. A fourth piece of work concerned a review of the handling of a previous Whistleblowing allegation, as noted in paragraph 10.2, relating to a project in Adult Education. A fifth piece of work involved an item requested by the Audit Committee at its meeting in September around governance processes. The unplanned reviews amounted to ten additional days work.

12. FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

- 12.1 The Service Director – One West (Acting as Chief Audit Executive for WECA) is required to give an opinion on the internal control framework.
- 12.2 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;

ITEM 12

- 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 external challenges which could impact on work in 2022/23;
- 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

13. 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 and Corporate Services to update them on the audit plan and ensures the plan continues to reflect the risks.

Other Options Considered

14. Not applicable

Risk Management/Assessment

15. Risk assessment is a core building block of internal audit work. The audit plan and the associated audits and reports are drawn up and/or scored on a risk-basis.

Public Sector Equality Duties

16. Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

Finance Implications, including economic impact assessment where appropriate:

17. No direct implications – Cost of service within existing budgets.

Legal Implications:

18. No direct implications.

Climate Change Implications

19. Climate Change continues to be a key consideration in the audit planning process. Conversations were held with WECA management in 2021/22 as part of the planning for the audit of Climate Change Action Plan which was subsequently moved to early 2022/23 and remains a key element of the Audit Plan.

Land/property Implications

20. No direct implications.

Human Resources Implications:

21. No Direct Implications.

Appendices:

Appendix 1 – Audit Plan End of Year Position Statement 2021/22

Appendix 2 – Highlight Summary of Audit Reviews Undertaken

Appendix 3 – Audit Opinion Descriptions

Background papers:

None

West of England Combined Authority Contact:

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 Quay, Bristol BS1 6EW; email:

democratic.services@westofengland-ca.gov.uk

ITEM 12

Appendix 1 – Audit Plan End of Year Position Statement 2021/22

Audit Area	Assurance Level or Risk Rating
Organisational & Corporate Functions	
Core Financial Systems – Data Analytics	N/A – Advisory work
Counter Fraud and Corruption	Level 3 – Reasonable Assurance
Grant Certification – Growth Hub Core Funding	N/A
Grant Certification – Growth Hub Supplementary Funding	N/A
Grant Certification – EU Transition Funding	N/A
Grant Certification – Future Transport Zone	N/A
Grant Certification – Peer Networks Grant	N/A
Grant Certification – Bus Subsidy Revenue Grant	N/A
Corporate Governance of the LEP	Level 4 – Substantial Assurance
IT Audit – Cyber Security	N/A – Advisory work
Project and Programme Management	Level 3 – Reasonable Assurance
Climate Emergency Action Plan	To be delivered in early 2022/23
Concessionary Travel	At Draft report stage
Whistleblowing Handling Assurance	N/A – Advisory work
Reasonable Assurance Model – Corporate Governance	Completed
Reasonable Assurance Model – Financial Management	Completed
Reasonable Assurance Model – Risk Management	Completed
Reasonable Assurance Model – Performance Management	Completed
Reasonable Assurance Model – Procurement	Completed
Reasonable Assurance Model – Information Management	Completed
Reasonable Assurance Model – Asset Management	Completed
Reasonable Assurance Model – Project Management	Completed
Follow – Up Area	Original Assurance Level
Follow-Up – Core Financial Systems – AP & AR	Level 3 – Reasonable Assurance
Follow-Up – Procurement	Level 3 – Reasonable Assurance
Follow-Up – Whistleblowing	Level 3 – Reasonable Assurance
Follow-Up – Workforce for the Future	Level 4 – Substantial

ITEM 12

	Assurance
--	-----------

Appendix 2 – Highlight Summary of Audit Reviews Completed

Audit Name	Scope of review	Selected strengths	Recommendations
<p>Core Financial Systems – Data Analytics</p>	<p>Provide a level of assurance over the functioning of core financial systems through the use of data analysis, including identification of inconsistencies and anomalies.</p> <p>The data analysis will aim to cover:</p> <ul style="list-style-type: none"> • Accounts Payable transaction data. • Accounts Receivable transaction data. • Supplier and Customer databases. <p>Supplementary datasets may be used to perform further testing, depending on availability and suitability.</p>	<ul style="list-style-type: none"> • No true duplicates were identified that WECA had not already identified through its own checks and analysis. 	<p>No formal recommendations provided as the audit was not testing controls. However, consideration raised for integrating additional analytical data reviews in future, and to widen scope to other databases.</p>
<p>Counter Fraud and Corruption</p>	<p>To ensure that WECA’s strategic approach to fraud is clear, documented, and in line with the latest best practice and guidance.</p> <p>To ensure staff throughout WECA are aware of fraud risks, and of their roles in tackling fraud.</p>	<ul style="list-style-type: none"> • A suite of anti-fraud policies is in place and easily accessible by staff, allowing officers to understand the authority’s stance on fraud and their own roles. • A formal Register of Interests is in place with evidence of the log being used regularly and appropriately. • There is evidence of sharing of 	<ul style="list-style-type: none"> • An annual review should be undertaken of controls in high risk fraud areas at WECA to identify where mitigating actions are required, especially in new and changing areas of WECA’s responsibilities and delivery as the organisation grows. • The Counter Fraud, Bribery and Corruption Strategy should be reviewed and updated to reflect the Fighting Fraud and Corruption Locally Strategy

ITEM 12

	<p>To ensure that the latest fraud risks against WECA are known and understood, and proportionate preventative measures are in place.</p>	<p>fraud alerts and bulletins across WECA, with a particular focus on financial fraud.</p> <ul style="list-style-type: none"> • Specialist fraud training sessions have been delivered within the last 18 months to management across WECA and to the Audit Committee, covering key Officers and Members • Basic data analysis is undertaken on key financial systems on a routine basis to identify fraud and error, and has been supported in 2020/21 and 2021/22 by additional data analysis by Internal Audit. 	<p>for the 2020s, including adding the key pillar of 'Govern'.</p> <ul style="list-style-type: none"> • Counter Fraud training should be included as part of the mandatory training for new starters. Training should include anti-bribery and corruption, and anti-money laundering. Completion of training should be monitored. • Fraud risks should be reviewed, re-scored and updated on the Corporate Risk Register to reflect the change of the fraud landscape during the pandemic. • An email should be sent to all Officers and Members to remind them of their responsibilities, and to declare all gifts and hospitality received in the last year. • A secure formal central record should be kept of suspected fraud cases covering all areas of WECA.
	<p>To ensure that cases of suspected fraud are identified and investigated in a timely manner.</p>		
<p>Corporate Governance of the LEP</p>	<p>Ensure that policies, procedures and strategy are appropriate to govern the LEP, in line with organisational priorities and government requirements.</p>	<ul style="list-style-type: none"> • The Local Assurance Framework includes all the required elements specified within the National Local Growth Assurance Framework. 	<ul style="list-style-type: none"> • It is recommended that the LEP Policies are reviewed on an annual basis to ensure they hold up to date information. The updates should be recorded in a version control table within the document. In addition, the LEP

ITEM 12

	<p>Ensure LEP grant funding is subject to adequate assessment, clear scrutiny, transparent decision-making and appropriate approval.</p>	<ul style="list-style-type: none"> • The LEP webpages contain the minimum requirements listed in the National Local Growth Assurance Framework and is subject to regular review. • LEP funding decisions are recorded transparently using the Modern.Gov app and a decision record is held with the Joint Committee meeting papers that are available on the LEP webpages. • Induction training is provided to all new LEP Board members within the first quarter they are in post which complies with the requirement in the National Growth Assurance Framework. • There is a scheme of delegation in place for approving decisions included in the Funding for Applicants Guidance document. • LEP funding updates are provided at LEP Board meetings and recorded in the minutes which are published on the LEP webpages. 	<p>webpages should be updated accordingly with new versions of the policies.</p>
	<p>Ensure that all approved LEP grant funding is recorded, monitored, and reported upon in an accurate and timely manner.</p>		

<p>Project and Programme Management</p>	<p>To ensure that a project management framework has been formally adopted and that systems / processes have been documented and appropriately communicated to enable consistency and compliance</p>	<ul style="list-style-type: none"> • An enhanced governance framework for managing projects was introduced for use across all WECA directorates, in July 2021. • The Operational Management Team has received formal training on the new project management methodologies. • Compliance checks are being introduced for key project stages. • There are systems in place to ensure that only appropriate staff can book time to a Project. • Where tested, there is evidence of steering groups functioning appropriately, with decisions, actions and owners recorded. 	<ul style="list-style-type: none"> • A Project Management Handbook should be created in an easily navigable format, which should include version control and template documents for key project processes and stages. • Minutes and agreed actions of Finance Meetings should be recorded to enable monitoring and follow up. • Periodic reviews should be scheduled to consider the adequacy of the project management framework that was introduced in July 2021. Any updates should be presented to senior management for approval. • Regular formalised monitoring of contractor performance and delivery such as monthly forecasts, Capital Dashboards and KPIs, alongside regular scheduled meetings should be prepared.
	<p>To ensure that project governance mechanisms are in place to provide clear and transparent ownership and accountabilities to enable effective project delivery.</p>		
	<p>To ensure performance monitoring and reporting is timely, accurate and consistent to enable key stakeholders to make informed decisions and for early identification of barriers to progress.</p>		

<p>IT Audit – Cyber Security</p>	<p>Key cyber security policies are in place, aligning with best practice as described by NCSC 10 Steps.</p>	<ul style="list-style-type: none"> • There is now a comprehensive due-diligence questionnaire for use in the procurement of suppliers of digital services. • Multi Factor Authentication (MFA) is implemented across WECA to protect its systems. • An IT Security Plan has been drafted in line with the National Cyber Security Centre’s (NCSC) 10 Steps to Cyber Security. • WECA’s Intranet includes a dedicated section for Cyber Security. • Cyber security matters are included in ‘Staff Update’ circular emails. • New Starter Welcome Packs contain a link to an NCSC Cyber Security e-learning course. • Phishing and IT Security information is provided on WECA’s ‘The Training Centre’ internal web page. • WECA’s PSN Compliance submission has been completed for 2021. • Contact details for the reporting of incidents are made clear through various communication channels such as emails. 	<ul style="list-style-type: none"> • Develop a formal IT Strategy that outlines the medium/long-term plan to deploy the ICT services, systems, and technologies. • Obtain and review all key policies, processes, procedures and results of testing under the responsibility of Agilisys. • The IT Service should catalogue and risk-assess all current digital services. Each procured service should be cross-referenced against WECA’s Cyber Security Checklist for Suppliers. • Broaden IT skills and awareness across the authority by implementing continuous and mandatory Cyber Security training / e-learning i.e. social engineering security awareness training • Ransomware and Malware incident response should be linked to disaster recovery, business continuity and crisis management plans. • It is imperative that a Cyber Security expert reviews the Cyber Security insurance policy prior to purchase, to ensure that it meets the needs of the organisation and covers emerging threats. • Develop and implement a BYOD policy in line with current NCSC guidance that considers the needs of users alongside the risks, and to ensure that devices are chosen and configured in a secure manner. • The ‘Split of responsibilities West of
	<p>Internal / external reviews are conducted on a regular basis to provide management with a sufficient overview of the functioning of cyber security controls.</p>		

ITEM 12

			<p>England Combined Authority / Agilisys' document should be signed off as a matter of urgency by both parties (WECA and Agilisys).</p> <ul style="list-style-type: none"> • Implement an Information Classification Policy either as a standalone policy or as part of an overarching policy.
<p>Whistleblowing Case Handling - Assurance Review</p>	<p>Review the handling of a Whistleblowing allegation received by WECA regarding suspected irregularities of a provider of Adult Education.</p>	<p>The 'referrer' could not strictly be deemed a Whistle-blower under the definition of the Public Interest Disclosure Act 199, nonetheless:</p> <ul style="list-style-type: none"> • Steps were taken to protect the complainant. • There was effective communication with the external organisation that led the investigation. 	<ul style="list-style-type: none"> • Consider the adoption of a protocol to ensure that all external reports of wrongdoing are assessed as following their submission to determine which policy / procedures will be followed to investigate reported concerns and this would then be communicated to the 'discloser / complainant'. • Ensure guidance is in place to obtain assurance from organisations leading investigations that obligations under WECA policies have been discharged.

Appendix 3 – Audit Opinion Descriptions

Assurance Rating	Opinion
Level 5 - Full Assurance	The systems of internal control are excellent with a number of strengths, no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4 - Substantial Assurance	The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3 - Reasonable Assurance	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.
Level 2 - Limited Assurance	The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.
Level 1 - No Assurance	The systems of internal control 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.