



REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 3 July 2023

REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT 2022/23

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Purpose of Report

1. This is the Annual Report (2022/23) of the Internal Audit function including a summary of Internal Audit performance, key findings / issues, as well as the formal opinion on the internal control framework.

Recommendation

2. The Audit Committee notes the Internal Audit Report 2022/23 and the formal opinion on the internal control framework.

Background / Issues for Consideration

3. THE REPORT

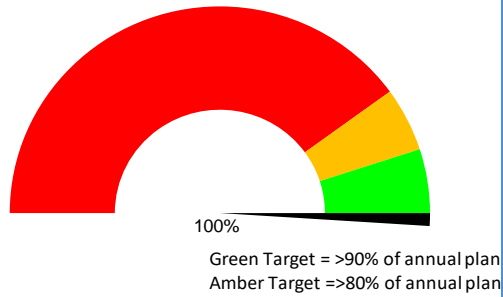
- 3.1 The Annual Internal Audit Plan for 2022/23 was presented to the West of England Audit Committee on 28th April 2022. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the Council's internal control environment.
- 3.2 The Committee receives verbal updates at each meeting, and it last received a formal update on delivery against the audit plan on 10th November 2022. This report builds upon that update and the performance dashboard overleaf summarises the year-end position.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

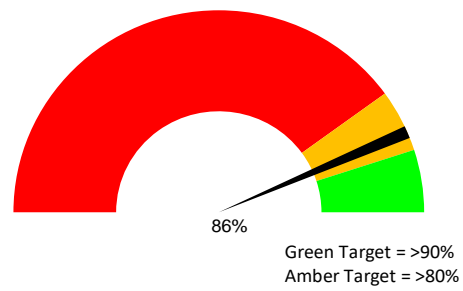
Client - West of England CA

Period - April 2022 - March 2023

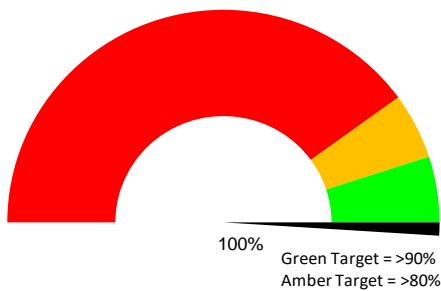
1. AUDIT PLAN COMPLETED



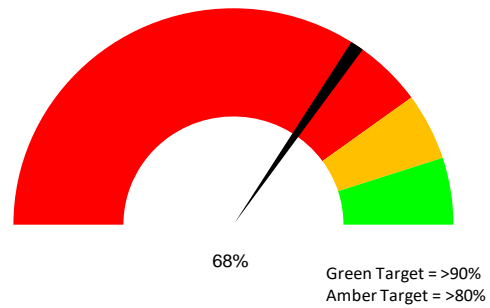
2. AUDITS COMPLETED IN PLANNED TIME



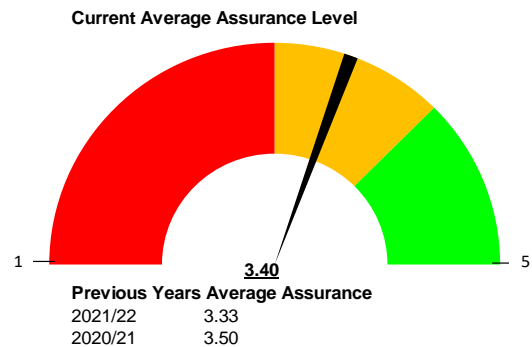
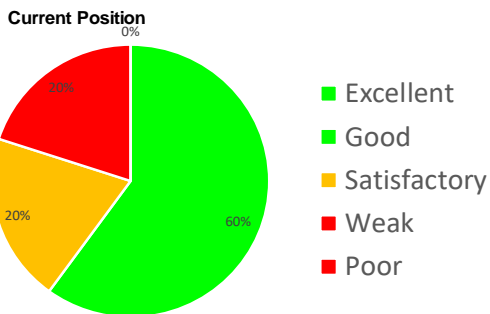
3. CUSTOMER SATISFACTION



4. IMPLEMENTATION OF RECOMMENDATIONS



5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED



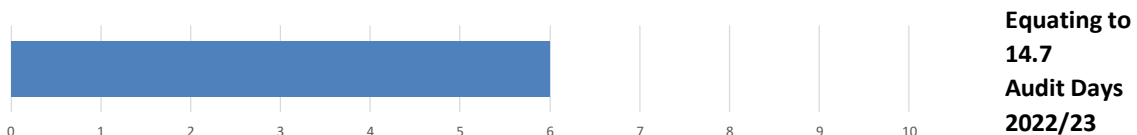
6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



8. NEW UNPLANNED WORK



4. PERFORMANCE SUMMARY

4.1 COMPLETION OF THE INTERNAL AUDIT PLAN

- 4.2 The performance dashboard shows that the Audit Plan as approved by this Committee in April 2022 was completed (final/ draft report or fieldwork substantially completed). There are two audits still to be reported to management (i) Project Management - Future Transport Zone (FTZ) – Governance (Strategy & Decision Making) and (ii) IT Audit (User ID and Authentication).
- 4.3 The 'Audit Plan End of Year Position Statement 2022/23' (Appendix 1) provides an up-to-date position of the planned internal audit reviews as at 31st May 2023.
- 4.4 During 2022/23, it has been important to ensure that the Internal Audit Plan has remained flexible and responsive to enable the service to respond to the Combined Authority's changing risk environment. The audit time initially planned for a review of LEP Governance audit was re-allocated to a review of 'Counter Fraud – Declaration of Interests', as agreed with the S73 and Head of Finance.
- 4.5 Audit work in quarters 1 and 2 of the financial year focussed on mandatory grant certification reviews.

5. AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 5.1 The percentage of audits completed within the initial allocated days is recorded at 86%. This figure was calculated based on audits recorded as being at 'Final' or 'Draft' Report stage.
- 5.2 Whilst there have been individual audits in the Audit Plan which have exceeded the original allocated days for the review to be completed, the internal audit work has been completed within the agreed total allocation.

6. CUSTOMER SERVICE

- 6.1 Customer satisfaction 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 recorded positive scores and comments and this corresponded to good feedback from individual Service Managers / auditees.
- 6.2 Our internal processes require the Audit Manager to initially review the customer feedback, before the scores and comments are communicated onto the relevant auditor who carried out the work. Customer feedback helps us to monitor our performance and maintain a quality internal audit service. Comments received included:

“Useful input and would welcome it happening again specifically on risk.”

“Thank you again for your support and your review.”

7. IMPLEMENTATION OF RECOMMENDATIONS

- 7.1 The 'Follow-Up' process requires management to provide their feedback on implementation of recommendations. If the recommendation is linked to a 'High' risk weakness, then the Auditor carrying out the 'Follow-Up' work will seek evidence of implementation.
- 7.2 The performance dashboard records the implementation of agreed audit recommendations at 68%.
- 7.3 This is lower than previous year figures and can be linked to two audit reviews and that management have not been able to implement the required actions within the timescale

that they had agreed when responding to the audit reports. The IT Cyber Security audit report had nine recommendations and five have been implemented. The Project and Plan Management report had four recommendations and two had been implemented. Revised implementation dates have been agreed for all outstanding recommendations.

- 7.4 The cyber security outstanding recommendations are governance rather than technical issues and therefore do not pose an immediate risk of exploit. Internal Audit is aware that cyber security funding has been obtained, subsequent to the audit review, and this will be used to identify and mitigate cyber risks, including implementing the audit recommendations.

8. INVESTIGATIONS/WHISTLEBLOWING

- 8.1 During 2022/23, the S73 Officer and the Head of Finance have introduced regular quarterly update review meetings with Internal Audit. Fraud and Whistleblowing are a standing item on the agenda. Internal Audit have not been involved in any formal investigations this year or received any whistleblowing submissions.
- 8.2 Audit West continues to provide management with advice and guidance on fraud and corruption threats. We share fraud alerts to enable management to consider and take any necessary action. We have made available a fraud bulletin to keep Combined Authority staff alert to the risks of fraud and corruption, and this year we also provided online training material 'Five Minutes of Fraud' videos to assist in maintaining staff awareness. These were made available during international fraud awareness week in November 2022.

9. ASSURANCE LEVEL PROVIDED

- 9.1 Appendix 1, Audit Plan End of Year Position Statement 2022/23, provides details of all the work undertaken and the assurance rating assigned where appropriate. There were five completed audit reports, three received an Assurance Level 4 – 'Substantial Assurance', one received a Level 3 – 'Reasonable Assurance' and one received a Level 2 – 'Limited Assurance'.

The single 'Limited Assurance' opinion related to the Concessionary Travel audit and the findings of this review were reported to the Audit Committee on 10th November 2022. The Head of Integrated Transport Operations, as responsible officer, attended the meeting and answered Committee Member questions. The recommendations from this work will be subject to a formal 'Follow-Up' as part of the Q2 cycle.

- 9.2 In addition to the audit 'assurance' reports mentioned above, two advisory pieces of work (briefing reports) were also carried out, with one reviewing the governance arrangements over the Climate and Ecological Strategy and Action Plan (CESAP) 2022. The other piece of work reviewed the high-level performance management process and procedures used to deliver the key principles set out in the Monitoring and Evaluation Framework 2022, including a benchmarking comparison exercise against other local authorities.
- 9.3 Internal Audit has also carried out grant certification work, with seven individual reviews having been 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.
- 9.4 As part of our Internal Audit work to assist with planning for 2023/24 we have completed 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. The eight themes are: Corporate Governance, Finance Management, Risk Management, Performance Management, Procurement, Information Management, Asset Management and Project Management. There were no significant concerns to report outside of those already discussed at recent Audit Committee meetings.

10. UNPLANNED AUDITS / WORK

- 10.1 There were six unplanned pieces of work carried out in 2022/23 with five being grant certification reviews as noted above. The sixth piece of work concerned a review of the Business Growth Grants to provide assurance that Business Growth Grant applications had been appropriately verified, validated, and approved in line with scheme requirements and that they had been paid accurately and timely to approved businesses. This assignment received a Level 4 – ‘Substantial Assurance’ audit opinion.

11. FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

- 11.1 The Service Director – One West, Acting as Chief Audit Executive for the West of England Combined Authority, is required to give an opinion on the internal control framework.

11.2 Statement of the Chief Audit Executive.

A robust Internal Audit service is a vital component of the Authority’s governance systems and provides assurance over the internal control framework. Internal Audit works independently of the management of the organisation and reports through to the Audit Committee via the S73 Officer.

Flexible / hybrid working continues and this is now an established method of working in the Combined Authority. There are advantages in providing internal audit services remotely including saving time and expense to commute to client locations. There are also some disadvantages, for example auditors not being able to observe behaviours and conversations in the workplace which provide a unique insight related to the activity being audited.

In forming an opinion on the governance, risk and control environment Internal Audit also considered other sources of assurance including reports from external assurance providers.

Close attention is clearly paid to the outcomes of the work of the External Auditor and we work closely with them to ensure an efficient delivery of assurance services. Findings from External Audit work had been presented to the Audit Committee during the year and their VFM - Governance Report was presented to the Audit Committee meeting in November 2022.

This Governance report contained three statutory recommendations, two key recommendations and four improvement recommendations. The committee fully accepted the findings and recommendations will be monitored during 2023/24.

Whilst the Internal Audit Plan in 2022/23 was limited to 100 days coverage, it was designed to ensure sufficient depth and breadth of coverage to meet the requirements of those charged with governance. Consequently, it focused on core financial and other systems and areas presenting the greatest control risk to the Authority.

Delivery of the Annual Audit Plan has identified some internal control weaknesses, as would be expected but none are deemed significant for inclusion in the opinion statement. There were not any significant changes to planned internal audit work and the opinion of the Chief Audit Executive is that the internal control environment for the Combined Authority was adequate.

Consultation

12. 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

13. No other options to consider related to this report.

Risk Management/Assessment

14. 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

15. 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:

16. No direct implications related to this report.

Legal Implications:

17. No direct implications related to this report.

Climate Change Implications

18. No direct implications related to this report

Land/property Implications

19. No direct implications related to this report.

Human Resources Implications:

20. No direct Implications related to this report.

Appendices:

Appendix 1 – Audit Plan End of Year Position Statement 2022/23

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 Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 70 Redcliff Street, Bristol, BS1 6AL.

Email: democratic.services@westofengland-ca.gov.uk

Appendix 1 – Audit Plan End of Year Position Statement 2022/23

Planned work

Area Under Review	Assurance Level/ Rating
Counter Fraud - Declarations of Interest	Level 4 Substantial Assurance
City Region Sustainable Transport Scheme - In Year Budget Management	Level 4 Substantial Assurance
Payroll	Level 3 Reasonable Assurance
Concessionary Travel	Level 2 Limited Assurance
Project Management - Future Transport Zone (FTZ) – Governance (Strategy & Decision Making)	Level - TBC WIP
IT Audit – User ID and Authentication	Level - TBC WIP
Climate and Ecological Strategy and Action Plan	Briefing Report
Performance Management	Briefing Report
Grant Certification - Growth Hub	Pass
Grant Certification - Future Transport Zone	Pass
Reasonable Assurance Model	Complete
Audit Follow-ups	Original Assurance Level
Follow-Up: Counter Fraud and Corruption	Level 3 Reasonable Assurance
Follow-Up: Project and Programme Plan Management	Level 3 Reasonable Assurance
Follow-Up: IT Cyber Security	Briefing Report

Unplanned work

Area Under Review	Assurance Level/ Rating
Business Growth Grants 22-23	Level 4 Substantial Assurance
Grant Certification – Peer Networks	Pass
Grant Certification – DfT Local Authority Bus Subsidy	Pass
Grant Certification – DfT Local Authority Covid Bus Subsidy	Pass
Grant Certification – Biodiversity Net Gain	Pass
Grant Certification – Green Homes	Pass

Appendix 2 – Highlight Summary of Audit Reviews Completed

Audit Name	Scope of Review	Summary Findings	Summary Recommendations
Counter Fraud – Declaration of Interest	<ul style="list-style-type: none"> - Employees/ contractors/ consultants and Members are informed of the requirement to declare interests. - Employee (including Agency staff) and Member declarations are reviewed promptly by the Monitoring Officer or relevant senior manager to provide timely advice/guidance on how the interest should be managed. - All declarations are accurately and timely recorded in a register which records advice/guidance provided (by whom & date) and which can be accessible for review purposes. - Member declarations are accurately recorded and made publicly available 	<p>Level 4 - Substantial Assurance Audit Opinion.</p> <p>The control framework in place for the management of Declarations of Interest was found to be effective.</p> <p>Adequate policy and procedural notes were in place within the Constitution and Code of Conduct to effectively communicate expectations to both staff and Members.</p> <p>There was evidence of statutory compliance and appropriate central record keeping regarding Declarations of Interest including the publishing of Member registers.</p>	<ol style="list-style-type: none"> 1) The Statutory Officers Group should diarise an annual check of the centrally maintained registers. This should incorporate review of timeliness and accuracy of submissions, scrutiny of advice and guidance given, and appropriate challenge of any anomalies. 2) On an annual basis the Statutory Officers Group should scrutinise Member declarations published online and confirm their accuracy. A record of this verification should be documented. 3) The Combined Authority should schedule annual use of the established staff communications newsletter 'The Loop' to remind employees of their responsibility to declare financial and non-financial interests. This should include reference to the guidance contained within the Code of Conduct. 4) The Combined Authority should explore the options around introducing an automated online process for employee declaration.

Audit Name	Scope of Review	Summary Findings	Summary Recommendations
City Region Sustainable Transport Scheme (CRSTS) – In Year Budget Management	<ul style="list-style-type: none"> - Cost Centres are delineated by project and that each has a responsible manager and finance officer assigned. - Forecast income / expenditure is regularly monitored and that budget allocations are approved, accurately input and updated on a timely basis to Agresso. - Senior Management receive accurate and timely financial management information to inform decision making 	<p>Level 4 - Substantial Assurance Audit Opinion.</p> <p>Central Government has approved a total of 25 CRSTS projects for the Combined Authority. Forecasting and budgeting for the identified CRSTS projects is under regular review, with specialist external consultancy support enlisted by the Combined Authority for independent scrutiny and advice.</p> <p>The finance team actively review in-year budget and forecasting on a monthly basis, liaising with CRSTS project managers for short term focuses.</p>	<ol style="list-style-type: none"> 1) The senior financial management team should review and standardise the information required on the monthly monitoring reports from project managers. Feedback and guidance should be given to teams not delivering reports in full and patterns of late, missed or incomplete reports should be discussed formally and escalated to senior leadership. 2) The finance team should ensure each specific CRSTS project has an individual code within an appropriate cost centre on the Agresso financial management system. Budgets and forecasts relating to funding allocated for each project should be clearly delineated and accurately recorded on the system.
Business Growth Grants (Unplanned)	<ul style="list-style-type: none"> - Business Growth Grant applications have been appropriately verified, validated, and approved in line with scheme requirements. - Business Growth Grants have been paid accurately and timely to approved businesses. 	<p>Level 4 – Substantial Assurance Audit Opinion.</p> <p>18 grant applications were examined which equates to approximately 10% of the 178 Grants that were processed.</p> <p>For the sample reviewed, Business Growth Grants had been appropriately and proportionately verified, validated, and approved in line with scheme requirements. The grants have been paid accurately and timely to approved businesses.</p>	<p>No recommendations were made for this review.</p>

Audit Name	Scope of Review	Summary Findings	Summary Recommendations
Payroll	<ul style="list-style-type: none"> - Management and staff understand and comply with formally adopted systems / processes. - Starter, variation and leaver data is accurately recorded on iTrent to enable accurate and timely payments. - iTrent authorisation hierarchy and user access privilege levels enable the efficient and effective processing of payroll data ensuring payments that are legitimate, accurate & timely. - All contractual and non-contractual payments and associated deductions are calculated correctly and made in a timely manner. 	<p>Level 3 - Reasonable Assurance Audit Opinion.</p> <p>Overall controls were found to be appropriate and operating as they should, although there were a few areas for improvement including strengthening of key document review procedures and those for oversight of payroll operations.</p> <p>Payroll operations have proceeded at a high level of accuracy and timeliness and the Combined Authority have reported a high level of satisfaction with the payroll service provided by Agilisys.</p> <p>Data analytics, performed by Internal Audit, identified a lack of iTrent system access policy and no prescribed review schedule of existing iTrent user access.</p>	<ol style="list-style-type: none"> 1) The Combined Authority Workplace Support Manager should establish an iTrent system access policy. 2) The Combined Authority should perform regular reviews of iTrent user access levels. 3) Version control tables should be applied to key HR and Payroll documents to record details of changes and reviews. 4) The Combined Authority should Implement formal periodic spot-checks of the quality of data input into iTrent. 5) The Combined Authority should liaise with Agilisys to ensure that all relevant periodic reports are being produced and provided in a timely manner to the appropriate parties to ensure comprehensive oversight of payroll operations. 6) Agilisys should perform a review of the Service Level Agreement (SLA) and ensure that future reviews are conducted in line with the specified schedule. 7) The Combined Authority should liaise with Agilisys to seek assurance over any fraud and error checks that are performed by the service provider.
Concessionary Travel	<ul style="list-style-type: none"> - Clarity and formal acceptance of responsibilities of the West of England Combined Authority, North Somerset and constituent authorities for administration of Concessionary Travel. - Calculation of Concessionary Travel 	<p>Level 3 - Limited Assurance Audit Opinion.</p> <p>The service has had to focus its efforts across the last two years on supporting operators by maintaining timely payments in line with temporary</p>	<ol style="list-style-type: none"> 1) A Managing Authority Agreement should be drawn up between North Somerset Council and the Combined Authority. Further, A new Inter Authority Delivery Agreement should be drawn up and signed by all parties, outlining the responsibilities of the

Audit Name	Scope of Review	Summary Findings	Summary Recommendations
	<p>reimbursement payments to bus companies is reasonable, consistent, subject to scrutiny and approval (transparency), and in line with government guidance.</p> <ul style="list-style-type: none"> - Payments processed for Concessionary Travel are accurate, timely and in line with notices issued to bus companies. - Constituent authorities are issuing Concessionary Travel Passes in line with Authority priorities and government rules. 	<p>government guidance during the Covid-19 period. This meant that maintenance of day-to-day service took priority over reviewing and updating the management and administrative processes and the related key internal controls.</p> <p>In particular, there are no longer formal agreements in place between the Combined Authority and the four West of England Local Authorities since the previous Concessionary Travel agreements expired in 2020. Record-keeping has also suffered, with a lack of formal procedures and guidance notes outlining the complex reimbursement rate calculations, and poor audit trails evidencing previous payment calculations.</p> <p>The Combined Authority has not maintained formal oversight of the local authorities that are issuing passes on its behalf and there are no formal mechanisms in place for ensuring rules are applied consistently.</p>	<p>constituent authorities as agents for administering travel passes on behalf of the Combined Authority.</p> <ol style="list-style-type: none"> 2) A standard model should be adopted for reimbursement rate calculations and reviewed on an annual basis to ensure it complies with government guidance and the Combined Authority priorities and resources. 3) The Combined Authority should make proportionate provision to review the calculations made in accordance with the Authority's standard method at least once in each period of 12 months that the relevant reimbursement arrangement is in operation. 4) The procedural notes for reimbursing bus operators should be updated and finalised to cover existing processes. 5) Reimbursement rate calculations should be approved and signed off by management before being communicated to operators. 6) The Combined Authority should implement measures to ensure appropriate oversight of issuing of Concessionary Travel passes, in line with the Combined Authority's obligations as the Concessionary Travel Authority for the region.

Audit Name	Scope of Review	Summary Findings	Summary Recommendations
Climate and Ecological Strategy and Action Plan (Briefing Paper)	<p>This work focused on the governance arrangements in place to ensure that the West of England Climate and Ecological Emergency Strategy and Action Plan (CESAP) 2022 is delivered by 2030.</p>	<p>The West of England Combined Authority has made good progress to drive action on the climate and ecological emergency agenda in a relatively short space of time (The CESAP was adopted in April 2022).</p> <p>The Head of Environment is responsible for the new Environment Directorate, and they have overall ownership of the CESAP.</p> <p>The CESAP requires progress against the action plan to be reported every six months to the CA Joint Committee and the action plan to be reviewed and updated on an annual basis to ensure that momentum and ambition are maintained.</p> <p>The majority of the activities set out in the action plan, to achieve the stated climate and ecological emergency objectives, were consistent with the SMART objectives model. However, there are some actions, identified from the CESAP document, that didn't provide sufficient explanation on how the action would achieve the stated objective.</p>	<ol style="list-style-type: none"> 1) CESAP action plan items should be reviewed to ensure that they are sufficiently detailed. Consideration should be given to how the medium and long-term actions in the CESAP will be progressed and monitored to ensure that they are completed. 2) Climate training should form part of the CA mandatory training for all new starters. Additionally, selected staff should undertake Carbon Literacy training to achieve the Carbon Literacy Trust - Carbon Literate Organisation 'Silver Award'. 3) The Environment Directorate should set up a central record of all projects to enable these to be tracked and monitored. Further, guidance should be produced to ensure that all services proactively consider climate and ecological objectives as part of the Service Planning template. 4) An Environment Directorate risk register should be created and kept up to date.
Performance Management (Briefing Paper)	<p>This work focused on the high-level performance management process and procedures used to deliver the key principles set out in the Monitoring and Evaluation Framework 2022.</p> <p>This review focused on the following areas:</p>	<p>A Monitoring and Evaluation Framework is in place which is reviewed and updated on annual basis and it contains links to the Business Plan priorities. However, the Monitoring and Evaluation Framework is not as detailed as that for four comparative organisations reviewed.</p>	<ol style="list-style-type: none"> 1) The Monitoring and Evaluation Framework should be reviewed by the Principal Economist to ensure that key areas are included. 2) A responsible officer should be identified to ensure that performance management is coordinated within the Combined Authority.

Audit Name	Scope of Review	Summary Findings	Summary Recommendations
	<ul style="list-style-type: none"> • Strategy and policy. • Training, guidance and communications. • Capturing and monitoring performance information. • Reporting and scrutiny processes. 	<p>Training is provided on Project Business Case submission and Project Highlight Reporting. Project Management training is provided for new project managers.</p> <p>Performance management templates are used to capture information on progress of projects and programme performance. However, this is not consistent across the organisation.</p> <p>There are responsible persons assigned to monitor and evaluate performance data for the Combined Authority and publish Strategic KPI's in their Business Plan which contains the key regional indicators. These are measured and reported through the Economic Quarterly Bulletin published on the Combined Authority's website.</p>	<p>3) Policies and procedures should be written and implemented to ensure that there are consistent practices across the organisation to monitor and report performance outcomes.</p> <p>4) The Business Plan should be published on the Combined Authority's website to ensure transparency of strategic plans for all stakeholders.</p>

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.