

WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY

AUDIT AND GOVERNANCE COMMITTEE

DATE: 29 JUNE 2010

AGENDA ITEM NO: **7**

SUBJECT: INTERNAL AUDIT - ANNUAL REPORT

Report of the Internal Audit Manager

1. PURPOSE OF REPORT

- 1.1. To consider the annual report of the Internal Audit Manager and, as a result of the work undertaken, provide an overall opinion of the control environment.

2. INFORMATION

The Annual Reporting Process

- 2.1. Management is 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 adequacy of the control environment.
 - Comment on the nature and extent of significant risk.
 - Report the incidence of significant control failings or weaknesses.

Requirement for Internal Audit

- 2.2. There is a statutory requirement under the Accounts and Audit (Amendment) (England) Regulations 2006 for an internal audit function. Regulation 6 states that a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”. This role is complemented by initiatives aimed at promoting effective corporate governance, such as the Audit Commission’s emphasis on risk management in their Code of Audit Practice.

- 2.3. In December 2006 CIPFA published their revised code of practice for internal audit in local government in the U.K. This has been adopted as “proper internal audit practice” for the Authority.

How Internal Control is Reviewed

- 2.4. Internal Audit continues to embrace the risk assessment approach to audit. During the course of the year the risk profile of Metro has been continually updated and used to form the basis of Internal Audit’s operational plan for the coming year. The review process draws on key indicators of risks to the organisation and attempts to ensure that suitable audit time and resources are devoted to review the more significant areas. Factors used in the risk assessment include financial materiality, legislative requirements, Audit’s previous 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 control environment.

Opinion 2009/2010

- 2.5. From the work undertaken during the year, Internal Audit has reached the opinion that key systems are operating soundly and that there is no fundamental breakdown of controls resulting in material discrepancy. However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

Annual Governance Statement (AGS)

- 2.6. The Accounts and Audit Regulations 2003 established requirements related to systems of internal control and the review and reporting of those systems. Accordingly, the Authority needs to have in place a process for establishing, maintaining and reviewing the system of internal control and risk management. Regulation 4 of the Accounts and Audit Regulations requires that;

“The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk”

- 2.7. Further amendments to the regulations that bring ITA’s into the scope of the Act took effect from 31 March 2006. Changes in relation to the provision of statements on internal control are as follows;

“The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in

accordance with proper practices, with the Statement of Accounts.

The findings of the review shall be considered by a committee of the relevant body, or otherwise by the members of the relevant body meeting as a whole, which shall approve a statement on internal control, prepared in accordance with proper [internal control] practices.

- 2.8. CIPFA/SOLACE have produced a governance framework for the creation of an AGS. This has been adopted and applied as proper practice by the Authority.
- 2.9. The opinion on 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.

3. SIGNIFICANT ISSUES ARISING 2009/2010

There were no significant weaknesses which impact on the internal control environment identified as a result of audit work performed. However, the following observations were made in relation to arrangements for managing risk:-

3.1. Risk Management Arrangements

A key component of Metro's risk management framework is the operation of the Risk Management Group (RMG). The terms of reference for the Group include;

- Identifying and assessing all significant risks.
- Assessing the adequacy of existing risk management arrangements.
- Monitoring progress and updating the risk management action plan.
- Drawing any significant new risks to the immediate attention of the Executive Board.
- Considering and reviewing the operation of the Health & Safety Committee.

The responsibilities and arrangements for managing risk have recently been revised, and new arrangements are to be set in place with greater emphasis being placed on the roles of the directorate and corporate management teams. The role of RMG is to be

modified to provide oversight and development of risk management systems.

3.2. Summary of Whistleblowing Cases

The Section continues to act as the primary contact point for Metro's Whistleblowing Policy. Arrangements to improve accessibility to information and mechanisms to make protected disclosures have been provided on the Executive's and Authority's web sites. During the period no referrals were made to Internal Audit.

4. AUDIT PERFORMANCE

Ensuring Quality

- 4.1. We work closely with the external auditors, the Audit Commission. They seek to place reliance on the work that we do on key financial systems to gain assurance that the systems are operating as intended. Such assurances contribute to them being able to "sign off" the Accounts and contribute to their 'conclusions' on the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Reporting

- 4.2. Arrangements for reporting on internal audit activities to the Authority continued through the Audit and Governance Committee. The Group's primary roles are to deal with the Authority's arrangements relating to its financial accounts, the adequacy of corporate governance arrangements and to consider arrangements relating to internal and external audit.

Client Feedback

- 4.3. 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. The responses have been analysed and indicate good scores in all criteria with the exception of significance of recommendations, which produced an above average score.
- 4.4. Over 180 employees completed the corporate survey including their experience and perception of the Internal Audit service provided within Metro. The results of this questionnaire support responses received from audit client feedback returns. Overall the customer satisfaction score was 3.78 in the scale from 1 to 5, 5 being an excellent rating. This was an increase on the previous year's score and demonstrates continuous improvement and that there is a good understanding and perception of internal audit amongst management and staff within Metro.

5. ADDING VALUE

- 5.1. Throughout the year the section have provided advice over and above the core objectives of giving internal control assurance and recommending effective systems improvements to management.
- 5.2. This included providing input into the revised Anti Fraud and Anti Corruption Policy and advice in respect of declarations of interest for updating the Code of Conduct for employees.
- 5.3. Internal Audit has also continued to play a lead role in coordinating risk management arrangements within Metro.

6. CONTINUING PROFESSIONAL DEVELOPMENT

- 6.1. In a changing environment it is important that Internal Auditors are kept abreast 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 role. This is provided through Continuing Professional Development. To support this process, each Internal Auditor is assessed against CIPFA's skills and competences guide. This enables strengths and weaknesses to be identified so that training can be focused on individuals specific requirements.

7. EQUAL OPPORTUNITY IMPLICATIONS

- 7.1. None resulting from this report.

8. RECOMMENDATIONS

- 8.1. That this report be noted.