

# WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY

## AUDIT AND GOVERNANCE COMMITTEE

DATE: 23 June 2009

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 provide details of the progress made by the Internal audit team against the Annual Audit Plan 2008/09.

#### **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 2008/2009

- 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 that came into force on 1<sup>st</sup> April 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 2008/2009**

- 3.1. The following section provides a summary of the more significant issues that have been identified and reported during the year:

#### **Bus and Rail Survey Systems**

- 3.2. Control weaknesses in respect of access rights and audit trail functionality were identified for the operation of the CoSa system. This is required to provide further transparency and maintain the integrity of the bus and rail survey database.
- 3.3. It has been agreed that system functionality be further developed to address these issues.

#### **Capital Projects - Management Framework**

- 3.4. Improvements were identified relating to documentation concerning risk management and providing mechanisms to clearly define how quality is ensured throughout the lifecycle of projects.
- 3.5. It was agreed that Metro's project management framework will be updated to enable risk and quality aspects to be enhanced.

#### **Corporate Governance**

- 3.6. A review of corporate governance arrangements identified the opportunity to produce a Code of Corporate Governance for the Executive and Authority.
- 3.7. A Code of Corporate Governance was produced for the ITA. The Executive is in the process of consolidating existing policies and procedures to form a Code of Corporate Governance.

## **Agents Ticket Sales**

- 3.8. Arrangements are in place to enable Metro tickets to be sold through the Post Offices in West Yorkshire and also through rail ticket offices. Under these agreements, organisations are required to periodically provide information relating to the value of sales, commissions and spoils.
- 3.9. A feature of the overall control environment is that these organisations operate robust systems to safeguard ticket stocks and that provide accurate information concerning sales income received and the levels of stockholding. Despite a number of requests, assurances about the operation of these processes have not yet been provided by the Post Office or ATOC.
- 3.10. The Executive have agreed to continue to pursue these issues with the Post Office and through the West Yorkshire Ticketing Company, TICCO.

## **Summary of Whistleblowing Cases**

- 3.11. 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 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 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.