

GMCA Audit Committee

Date: 27 April 2021

Subject: Review of Effectiveness of Internal Audit

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

The Head of Audit and Assurance conducts an annual review of the effectiveness of its system of internal audit as part of its governance assurance processes. This process is designed to provide assurance to the Audit Committee over the system of internal audit including the role, function and performance of the internal audit service.

This report sets out the assessment for 2020/21 and actions proposed to ensure ongoing effectiveness and quality of the GMCA Internal Audit service.

RECOMMENDATIONS:

The Audit Committee is requested to:

- Note the review of effectiveness for 2020/21
- Endorse the Quality Assurance and Improvement Programme.
- Approve the scope of the external assessment of the GMCA Internal Audit service.

CONTACT OFFICERS:

Sarah Horseman, Head of Audit and Assurance - GMCA,
sarah.horseman@greatermanchester-ca.gov.uk

Risk Management – N/A

Legal Considerations – N/A

Financial Consequences – Cost of GMCA Internal Audit Service

Financial Consequences – N/A

Number of attachments included in the report: 1 – Internal Audit Quality Assurance and Improvement Programme.

BACKGROUND PAPERS: N/A

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		N/A
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

- 1.1 Internal Audit is one of the means by which the Greater Manchester Combined Authority (“GMCA”) assesses the adequacy and effectiveness of its governance and risk management arrangements, ensuring that an effective internal control system is in place. It is a key source of independent assurance to management and those charged with governance and its work helps inform the Annual Governance Statement.
- 1.2 It is important that the effectiveness of the internal audit function is regularly assessed to ensure that the service is effective and fulfilling its remit, as defined in the Internal Audit Charter; is adding value to the Authority and complies with the Public Sector Internal Audit Standards (PSIAS).
- 1.3 This report provides the assessment of the effectiveness of the GMCA Internal Audit service for 2020/21 and sets out the plans for monitoring and measuring effectiveness of the service going forwards.
- 1.4 Effectiveness of the Greater Manchester Police (GMP) Internal Audit team is assessed and reported separately to the Joint Audit Panel (Police and Crime). For the purpose of this report, the assessment is in relation to internal audit services provided to GMCA (including GMFRS).

2 Assessment of Internal Audit Effectiveness for 2020/21

- 2.1 The following attributes have been considered when assessing effectiveness of the Internal Audit service:
 - Structure and resourcing
 - The extent of conformance with the PSIAS in producing quality work.
 - Delivering audit work in the most appropriate areas on a prioritised (risk) basis.
 - Audit Committee reporting
 - Implementation of Internal Audit recommendations
- 2.2 The conclusion of the assessment is that the work undertaken by internal audit in 2020/21 has been effective insofar that it has focused on key areas of risk and has been undertaken in line with PSIAS.
- 2.3 This conclusion has been derived from the following assessment:

2.3.1 Internal Audit Structure and Resourcing

Prior to 2019/20, the GMCA Internal Audit service had been provided by Manchester City Council (MCC) on an outsource basis. An in-house team was (and continues to be) in place to deliver Greater Manchester Police (GMP) Chief Constable’s Internal Audit service.

A decision was made to bring the GMCA service in-house and a new Head of Audit and Assurance was recruited and commenced employment in April 2019. The Head of Audit and Assurance is also the Head of Internal Audit at Transport for Greater Manchester (TfGM).

During 2019/20 the GMCA Internal Audit team was established and recruited and was has been in place at full establishment for the whole of 2020/21. There are two Principal Auditors within the team (1.3 FTE), and Audit Manager (1.0FTE) and the Head of Audit and Assurance who provides approximately 0.25 FTE to the GMCA Audit Plan.

The Structure of the Internal Audit service is shown below:



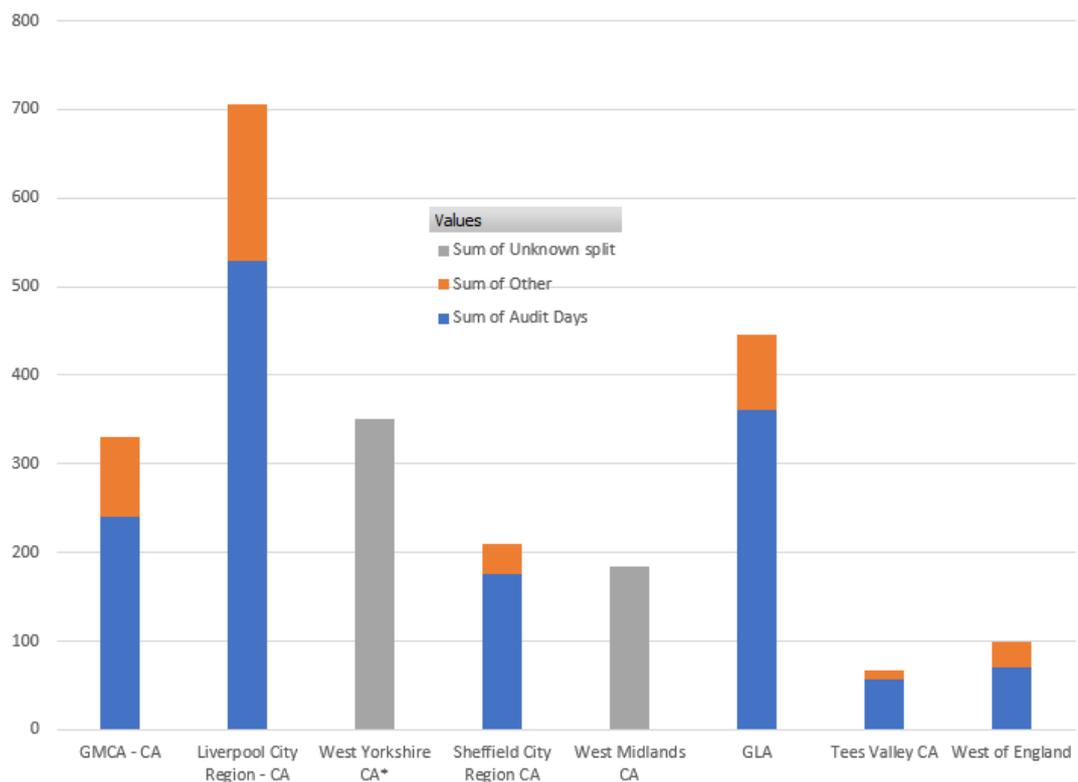
2.3.2 Benchmarking

The amount of Internal Audit work (days) that can be delivered is inherently dependent upon the resource available. The resources within the GMCA internal audit team is reviewed periodically, and in particular when developing the internal audit plan for subsequent years.

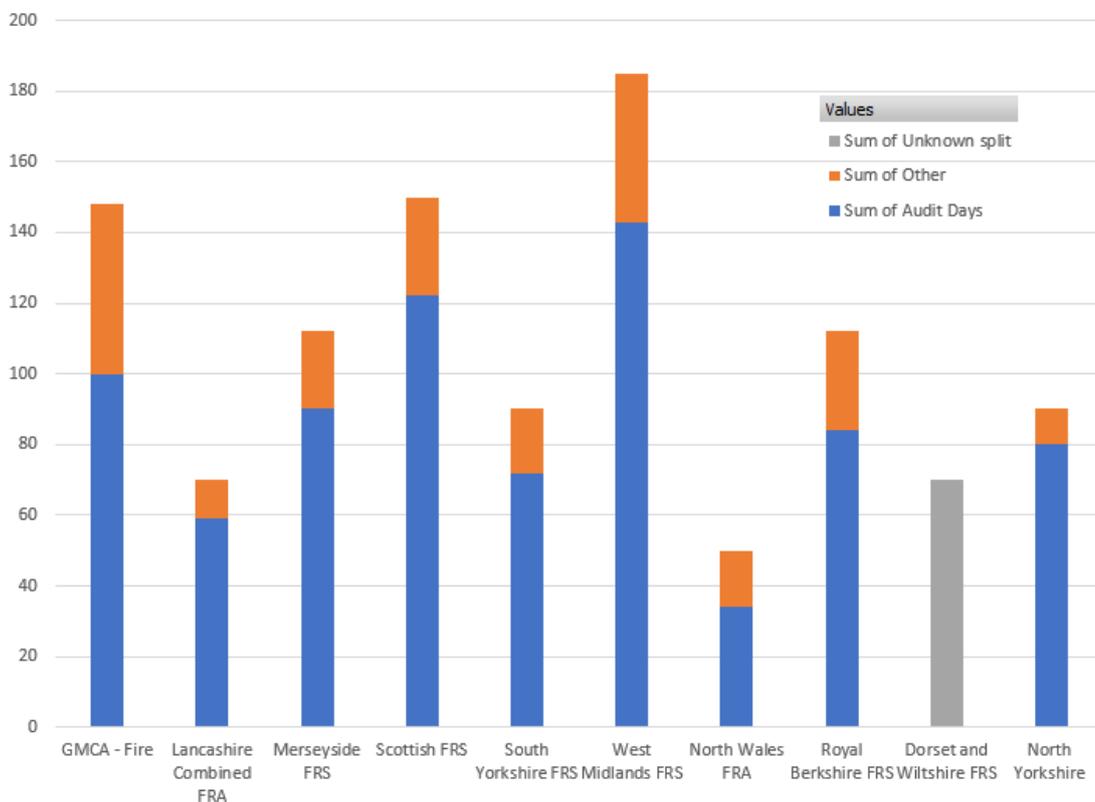
A benchmarking exercise was undertaken in March 2021. Data was obtained from publicly available information. Some of the audit days are approximated as only the total costs of outsourced providers were made available, days were approximated using a generic market daily rate for internal audit services. GMCA days were apportioned to either GMCA or GMFRS based on the proposed scope of work.

The results of the benchmarking are as follows:

GMCA Days – Dedicated GMCA days within the audit plan are 330. A table showing how that compares to other Combined Authorities is shown below.



GMFRS days - Dedicated GMFRS days within the audit plan are 148. A table showing how that compares to other Fire and Rescue Services is shown below:



Given the complexity and powers of GMCA compared to some other Combined Authorities, the Head of Audit and Assurance is currently working with the Treasurer to determine if an additional 0.5 FTE could be supported within existing budgets. This would provide additional audit days that could allow the team to undertake some additional audit work in 2021/22 as well as to allow for some contingency in the plan to respond to ad-hoc requests.

2.3.3 The extent of conformance with the PSIAS in producing quality work

A self-assessment exercise has been undertaken in 2020/21 against the requirements of PSIAS. This assessment has concluded that the internal audit team does substantially conform with PSIAS. Areas for improvement have been identified and are included in the Internal Audit Effectiveness Plan for 2021/22.

An external assessment of compliance with PSIAS is proposed for Q1 2021/22. The **Audit Committee are requested to approve the scope of work of this external assessment, the MoU of which is provided in Appendix 2.**

2.3.4 The extent of conformance with the Internal Audit Quality Assurance and Improvement Plan

An assessment of the team's conformance with the QAIP has been undertaken. Each of the types of internal and external assessments specified in the QAIP have been assessed. Areas of conformance are shown below:

Ongoing Reviews

- ✓ All engagements are appropriately supervised. Weekly, virtual team meetings attended by the Principal Auditors, IA Manager and Head of Audit and Assurance provide updates on progress of each audit assignment and provide an opportunity to discuss audit findings and subsequent work to be undertaken.
- ✓ The Internal Audit Manager reviews the working papers for all engagements
- ✓ The Internal Audit Manager and Head of Audit and Assurance review all draft reports before they are issued.
- ✓ The Head of Audit and Assurance reviews all final reports, agreed actions and levels of assurance prior to issue.
- ✓ Internal Quality Control checklists are used to ensure consistency in process and compliance with standards

Periodic Reviews

- ✓ Performance against Internal Audit KPIs is reported annually to the Audit Committee. The impact of Covid on the work of Internal Audit in 2020/21 has meant that audits have taken longer than planned due to the remote working arrangements.
- ✓ Internal Audit regularly reports progress against the Internal Audit plan to the Deputy Mayors Meetings for Police and Fire, to GMCA Senior Leadership Team and to GMFRS Executive Board.
- ✓ Internal Audit undertake a formal risk assessment process annually to develop the Internal Audit Plan.
- ✓ The Head of Audit and Assurance undertakes an annual review of the effectiveness of Internal Audit, compliance with the QAIP and a self-assessment of compliance with PSIAS.
- ✓ Formal Performance Review process in place for the team where objectives and development activities are identified.
- ✓ Feedback on the effectiveness of Internal Audit and of the Head of Audit and Assurance requested from the Treasurer and Chair of Audit Committee.
- ✓ Internal Audit Effectiveness Plan developed as a result of feedback and assessment, progress against the plan reported regularly to Treasurer and Audit Committee.
- ✓ Any significant areas of non-compliance with the PSIAS that are identified through internal assessment will be reported in the Head of Audit Assurance's

Annual Report and used to inform the Annual Governance Statement (AGS). No significance areas of non-compliance have been identified for 2020/21.

Areas for improvement that have been identified during the assessment of performance against the QAIP have been incorporated into the Internal Audit Effectiveness Plan (See Section 4 and Appendix 1). They include:

- Gathering more formal, regular feedback on audit engagements
- Documentary evidence of the internal review process
- Consistently recording and monitoring actions arising from team meetings
- Focussing on KPI performance
- Developing a team strategy for longer term development of skills

2.3.5 Delivering audit work in the most appropriate areas on a prioritised (risk) basis.

The internal audit plan for 2020/21 was developed in early 2020 after undertaking a detailed risk assessment. However, the impact of COVID meant the vast majority of risks within the organisation had increased, with new risks emerging and existing risks changing. A revised Internal Audit plan was developed based on the updated risk assessment and presented to the Audit Committee in June 2020. The plan continued to be reviewed throughout the year with any changes reported to the Audit Committee.

2.3.6 Audit Committee reporting

Internal Audit have provided progress updates to every Audit Committee meeting. The reports include updates on the team structure and resources, work undertaken during the period, a summary of the findings from reports issued and details of significant changes to the audit plan.

2.3.7 Implementation of Internal Audit recommendations

Progress with the implementation of internal audit recommendations has historically been reported to the Audit Committee by the Management. From Q2 2020/21, Internal Audit took over the process to monitor the implementation of agreed audit actions and will include as part of their annual programme activities to validate the implementation status of all actions arising from high risk findings and a sample of those from lower risk findings.

2020/21 showed an improvement in the implementation rate of audit actions although it did not reach the target implementation rate of 85%. Internal Audit will continue to monitor and report on the progress of audit actions.

3 Looking ahead – External Assessment, Internal Audit Effectiveness Plan and QAIP

- 3.1 The Head of Audit and Assurance has developed an Internal Audit Effectiveness Plan (Appendix 1) which identifies areas for improvement, based on this assessment of Internal Audit Effectiveness. The plan will be monitored throughout the year and progress reported to the Treasurer and to Audit Committee.
- 3.2 Recommendations arising from the external quality assessment will be included in the plan once received.
- 3.3 The Internal Audit Effectiveness Plan will work in conjunction with the Quality Assurance and Improvement Programme (QAIP) (Appendix 2), which is designed to provide reasonable assurance to GMCA's stakeholders that Internal Audit:
 - Performs its work in line with the Internal Audit Charter (approved annually by the Audit Committee). The charter incorporates the definition of internal auditing as set out in PSIAS.
 - Operates in an effective and efficient manner
 - Is perceived by stakeholders as adding value to GMCA

Internal Audit Effectiveness Plan 2021/22

This plan has been developed to enhance the effectiveness of the GMCA Internal Audit Function. Regular progress reports will be provided to the Treasurer and to the Audit Committee.

Ref	Action	Source	Responsibility	Measure
1	Audit client feedback: In 2020/21 limited feedback has been received from audit clients. Anecdotal feedback has been received but the formal mechanism for sending feedback requests and collating results needs to be improved. The team investigated whether an automated survey tool (MS Forms) could be used but it is not yet available at GMCA. Therefore the template form will continue to be used until a viable online form is available.	QAIP – ongoing reviews	IA Team	<ul style="list-style-type: none"> Client feedback questionnaires sent after each relevant audit engagement Feedback received from 75% of feedback forms sent
2	Evidence of review: of the Risk and Control Matrix (or other suitable working papers) and the approval of issue of reports needs to be formally documented. Whilst this takes place, the documented evidence of the review is not always recorded. The team do not use an electronic working papers system which could aid the documentation but a mechanism to record such review will be implemented.	QAIP – ongoing reviews	IA Manager, HoAA	<ul style="list-style-type: none"> Evidence of review of RACM during the planning and fieldwork stages. Evidence retained within audit folders of manager and HoAA review of draft and final reports.
3	Audit team meeting actions: The move to remote working has changed the way team meetings take place. Weekly virtual meetings have taken place throughout the year in order to update on the progress of all engagements, findings and next steps. Various mechanisms to record meetings and actions have been trialled through the year but that has resulted in inconsistency in recording actions. For 2021/22 actions from meetings will be recorded.	QAIP – ongoing reviews	HoAA	<ul style="list-style-type: none"> Actions from team meetings recorded and monitored
4	KPI performance: In 2021/22 increased focus will be placed on meeting the KPIs that have been set.	QAIP – periodic reviews	IA Team	<ul style="list-style-type: none"> Regular review of IA KPI performance and actions put in place to address any

				areas where improvements are required.
5	IA Team Strategy: will be developed focussing on development of the team and its collective skills which will be linked to the formal performance review and objective setting process.	QAIP – periodic reviews	HoAA	<ul style="list-style-type: none"> • Team Strategy to be developed and shared amongst IA team and with Treasurer to support long term development of the service.
6	Audit Action Tracking: Internal Audit will continue to monitor, validate and report on the implementation of audit actions.	IA Effectiveness – Action tracking	IA Team	<ul style="list-style-type: none"> • Quarterly action tracking reports to management and Audit Committee • Improvement in implementation rates during 2021/22
7	Internal Audit Resource: Internal Audit will work with the Treasurer to determine if there is an opportunity to increase headcount in order to deliver a larger internal audit programme to support the internal audit opinion.	IA Effectiveness – resources	HoAA/ Treasurer	<ul style="list-style-type: none"> • Increase in FTE within IA team

Peer Review
Memorandum of Understanding

Version 1. 10 March 2021

Introduction

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

Following the introduction of the PSIAS, the North West Chief Audit Executives' Group (NWCAE) developed a 'peer review' process in 2015 to be managed and operated by the constituent authorities to meet this requirement. This process addresses the requirement of a 'self-assessment with independent external validation'. An update of this document has been undertaken in March 2021.

This Memorandum of Understanding (MoU) sets out the broad basis and methodology upon which the constituent authorities agree to participate in the scheme and how the activity will be carried out.

Constituent Authorities

The constituent authorities comprise those that make up the membership of the NWCAE Group, less those that have explicitly 'opted out'. A full list of participating authorities is included at Appendix 1.

It is the responsibility of the Head of Internal Audit (or equivalent) from each authority to seek approval for participation and communicate the purpose and methodology of the peer review process to 'those charged with governance' at their authority. This will in all likelihood include: Chief Finance Officer/Section 151; Chief Executive and/or Corporate Management Team; Chair of and/or Audit & Governance (or equivalent) Committee.

Assessment Team

The Assessment Team will comprise a minimum of two Heads of Internal Audit from the Constituent Authorities. One member of the Team may be a deputy Head of Internal Audit or Audit Manager providing they are suitably qualified and experienced to meet the definitions set out within the PSIAS.

Duration of the Memorandum of Understanding

This MoU is effective from 1 April 2021 to 31 March 2026, the end of the second five year period since the introduction of the PSIAS and by when each authority's internal audit section should have had their first external review. This MoU and process will be subject to ongoing formal review and updated in line with any developments or changes in the PSIAS.

Governance

Overall governance of the process, methodology and delivery of the peer review process is the responsibility of the NWCAE Group. For the development and piloting of the process, the NWCAE Group delegated responsibility to a Peer Review Sub-Group made up of the heads of audit from the following local authorities:

- Cheshire East BC;
- St Helens MBC;
- Stockport MBC;
- Wirral MBC.

Whilst the Sub-Group have responsibility for overall co-ordination of the peer review process, responsibility for ensuring compliance with the PSIAS in terms of external assessment will always remain with the Head of Internal Audit for each individual Authority.

Cost

There is no direct cost for participating in this process. However, it should be made clear that agreement to participate does require a 'time' commitment and that 'time' as a reviewer, moderator or authority under review cannot be claimed and/or recharged. It will be for the NWCAE Group (or its delegated group/individuals) to ensure that the 'time burden' is evenly spread with each participating authority taking its share.

Methodology

This MoU sets out a broad methodology for self-assessment with independent validation and is set out covering the three main stages of review: pre-review; on-site review; post-review. Accepting that improvement actions may have been implemented since the closure of any audit year, the review will focus on audit activity during the period covered in the latest Head of Internal Audit Annual Report & Opinion. For example, reviews commencing after 1 April 2021 will cover the audit year 1 April 2020 to 31 March 2021.

The review team must take a proactive and proportionate approach to assessing adherence to the standards and sub standards if reviewing work practices during the covid 19 pandemic. This will require careful consideration of external guidance from organisations such as Cipfa on temporary changes to IA practices due to the pandemic.

1. Pre-review

The authority to be reviewed, the review team and the moderation team will be selected and agreed by the NWCAE Group (or its nominated sub-Group). This will be undertaken at the beginning of the email.

An appropriate 'lead in' time, of not less than 4 weeks, should be allowed prior to any on-site review.

Each authority will be required to complete and share its self-evaluation of the Internal Audit service against the PSIAS together with any relevant supporting evidence/documentation in advance of on-site review commencement. The NWCAE Group has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** questionnaire. This will include any additional updates as and when these are released. Typically, supporting evidence will include the Internal Audit Plan & Charter, The Head of Internal Audit Annual Report & Opinion, Quality Assurance & Improvement Programme and randomly selected examples of final audit reports.

To support the on-site review, a customer survey form will be issued to key personnel within the authority being reviewed. A copy of the questionnaire is attached and this will be issued during the 'lead in' period to the following or may be used as the basis for the interview with them. Please note that this list is not exhaustive but should represent a broad spectrum of senior officer and members involved in the governance process:

- Chief Executive;
- Chief Finance Officer/Section 151;
- Monitoring Officer;
- Chair of Audit & Governance Committee (or equivalent);
- Corporate Management Team (or equivalent); and
- A sample of auditees.

A slightly different questionnaire may be used for members of the Internal Audit team who are interviewed.

The Head of Internal Audit from the Authority being reviewed will act as the key point of contact and will be responsible for communication, within their own Authority, of the purpose and timing of the review, the provision of documentation and the facilitation of on-site activity.

2. On-site Review

The review itself will comprise a combination of 'desktop' and 'actual on-site' review. However given social distancing requirements due to the pandemic then arrangements must be flexible at the time the review is undertaken. The key stages of the review are set out within a checklist which is attached as Appendix 4.

The review cannot reasonably consider all elements of the LGAN self-assessment and the review team must use the 'desktop' period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Each Authority

will be assessed against three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution, together with a view on the Impact of the Internal Audit service within the organisation concerned.

The focus of the four themes is as follows:

- **Purpose and positioning** - Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?
- **Structure and resources** - Does the internal audit service have the appropriate structure and resources to deliver the expected service?
- **Audit execution** - Does the internal audit service have the processes to deliver an effective and efficient internal audit service?
- **Impact** - Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation? Whilst this theme does not align directly with the requirements set out in the PSIAS or LGAN, and therefore does not contribute directly to the view of conformance to the PSIAS, it should add further value to the outcomes from the review.

The key considerations under each theme together with an alignment against each theme of the self-assessment checklist are provided.