

GMCA Audit Committee

Date: 27 August 2021

Subject: Internal Audit Progress Report

Report of: Sarah Horsman, Head of Audit and Assurance, GMCA

PURPOSE OF REPORT

The purpose of this report is to inform Members of the Audit Committee of the progress made on the delivery of the Internal Audit Plan for Q1 2021/22 and the finalisation of outstanding reports from 2020/21. It is also used as a mechanism to approve and provide a record of changes to the internal audit plan.

RECOMMENDATIONS:

Audit Committee is requested to:

- Consider and comment on the progress report
- Approve the changes to the Audit Plan (Section 3)

CONTACT OFFICERS:

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

Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

N/A

Legal Considerations

N/A

Financial Consequences - Capital

N/A

Financial Consequences - Revenue

N/A

Number of attachments included in the report:

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?		No
TfGMC	Overview & Scrutiny Committee	
N/A	N/A	

1 Introduction

The Internal Audit strategic three-year plan for GMCA was presented to the Audit Committee in April 2021 and this set out the planned assurance activity to be conducted during 2021/22 based on our understanding of the organisation's strategic and operational risks.

Separate plans are approved by Transport for Greater Manchester (TfGM) and Greater Manchester Police (GMP) / Police and Crime Functions with reporting to their respective Audit, Risk and Assurance Committee (ARAC) and Joint Audit Panel.

The purpose of this progress report is to provide Members with an update against the GMCA audit plan for 2021/22 and to report on the conclusion of outstanding work from the previous year.

2 Progress against the 2020/21 Internal Audit Plan

2.1 Internal Audit work completed since the last meeting of the Audit Committee

Since the last Audit Committee held on 27 April 2021, we have issued five published final reports as noted below. These outstanding audits have been considered as part of the Head of Audit's annual assurance opinion for 2020/21.

- **Waste and Recycling Contracts - Payment and Verification Processes:** This audit sought to provide assurance over core payment processes for the Waste and Recycling contracts including cost control arrangements, invoicing, payment structures and deductions. The audit provided a **reasonable assurance opinion** on the overall controls in place to calculate, verify and pay invoices for the Waste and Recycling contracts with a small number of agreed actions for improved control which were agreed by management.
- **GMCA Performance Management Arrangements:** This report provided a **limited assurance opinion** over the design and effectiveness of the existing performance management and reporting framework. The report highlighted the lack of a formally defined process for reporting on progress against delivery with a desire for more consistency over how we report and evidence progress on delivery of key priorities. At Directorate level, there was some good practice in place to define, measure, monitor and report on performance. Our report made two high and two medium risk actions, and we have agreed a timetable for implementation of these by the end of September 2021.
- **Mayoral Advisors:** Internal Audit were requested by the Chief Executive to undertake a review of the governance arrangements in place around Mayoral Advisors and to confirm that GMCA does not remunerate Mayoral Advisors either directly or indirectly. Our report provided a **limited assurance opinion** and the findings were discussed with the Chief Executive and Mayors office. The audit concluded that there was a lack of transparency and governance around the appointment of Advisors but did confirm that none of the advisors had been

directly remunerated by GMCA specifically for their advisory role. Two Advisors had been appointed into paid consultancy roles with a further Advisor being paid from grant funding awarded to an outside organisation.

Our report made four recommended actions including one high risk action. The Deputy Chief Executive is leading on developing a protocol by September 2021 to address the findings from the report which will include a review of arrangements for the appointment to Advisor roles and the establishment of panels for the second term of office.

Internal Audit will continue to monitor progress against the formal action plan once this is agreed.

- **Peer Network Funding to Local Enterprise Partnerships 2020/21** - Two certifications supporting claims of just over £1million were completed in May 2021 and signed reports returned to the Department for Business, Energy and Industrial Strategy (BEIS).
- **Grant Certification: Additional Dedicated Home to School and College transport (tranches 2&3)** - This £2.2m grant certification was completed, and a signed certification returned to the Department of Education in June 2021.

Details of the number and priority of agreed actions in respect of these audits are attached in **Appendix A** and the Executive Summaries from Final reports is included at **Appendix D**.

Our progress in delivering the audit plan is broadly on track, with the completion of outstanding work from 2020/21 being a priority during quarter 1. Several planned quarter 1 audits are under way together with some unplanned grants and responsive investigation work. The resourcing position for the service remains under review alongside any impact on the client side based on COVID restrictions and working arrangements.

2.2 Internal Audit work in progress 2021/22

A summary on the status of ongoing audit work is as follows:

Planning Stage	
ICT Security Audit (Q1) – Outsourced Work	Salford Internal Audit Service have been engaged to undertake a cyber security which will commence in July 2021.
CIT - Loan Funding and Approval (Q1)	An initial client discussion meeting has taken place in June to ascertain areas to be included in scope with a formal terms of reference for the assurance work to be agreed.
Supporting Families (Q2)	Planning has commenced on the audit of the Supporting Families programme (formally Troubled

	Families) with a meeting of District audit teams and Early Help Leads held in June
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Fieldwork Stage	
Procurement – Contract Award (Q1)	This work has commenced and is focused on the processes for the approval and formal ‘sign off’ of contracts and compliance with the GMCA constitution and finance procedural rules.
Programme and Project Governance (Q1)	This work has commenced to examine the arrangements in place for the delivery of programmes and projects, including the level of corporate resource and support available.

Reporting Stage	
BEIS Growth Hub Funding Grant Certification 2020/21 (Q1)	Work is complete to certify expenditure in relation to three BEIS grants and certification is being prepared prior to sign off.

Details of our progress in respect of the 2021/22 Audit Plan is shown in **Appendix B**.

3 Changes to the Internal Audit Plan

The internal audit plan is regularly reviewed and can be amended to reflect changing risks and/or objectives. In line with the Internal Audit Charter, any significant changes to the plan must be approved by the Audit Committee.

The audit plan is agile and can be flexed to meet current risk requirements. At this stage there are no proposed changes to the audit plan for 2021/22 other than in year timing of work. The plan will be reviewed again when the additional resources for the team have been appointed and the number of additional days for the year that resource will be able to deliver can be confirmed.

A cumulative record of changes to the plan, with the rationale for each, is shown as an **Appendix C** to this report.

4 Other Activities

Aside from delivery of the internal audit plan, since the last meeting internal audit have undertaken the following additional activities.

4.1 **External Quality Assessment (EQA) of GMCA Internal Audit Service:** During May an external peer review of compliance against the Public Sector Internal Audit Standards (PSIAS) standards was carried out by Heads of Audit from

Stockport and St Helens. We are awaiting the formal outcome of this work and this will be shared with Audit Committee members at a future meeting. Initial communications back from the assessment team indicate that the overall conclusion will be that the service conforms with PSIAS with some areas for improvement that had been identified during the 2020/21 self assessment of Internal Audit Effectiveness.

4.2 Extended Leadership Team (ELT) Development Sessions: There are several organisational development areas being progressed through ELT sub-groups to which Internal Audit are actively engaged and contributing. These include an update of the GMCA Constitution, a review of corporate processes, PPM review, refresh of GMCA Business plans and Greater Manchester Strategy.

4.3 Risk Management update – See separate paper

4.4 Whistleblowing and Counter Fraud activities – See separate paper

- The Head of Audit and Assurance has been appointed as Investigating Officer to a Formal Grievance that has been received which does have a whistleblowing element to it. That element will be reported through to Audit Committee in line with whistleblowing arrangements.

4.5 Boards and subgroups

- The Head of Audit and Assurance is a member of the Information Governance Board and of the Serious Information Governance Incident (SIGI) Panel both of which are chaired by the Senior Information Risk Owner. The Board meets on a regular basis. Progress has been made in identifying and managing IG risks and in developing formal mechanisms to record decisions made by SIGI in relation to specific incidents.
- Internal Audit also attend the Freedom of Information (FOI/EIR) and Transparency User Group to feed into the development of processes around statutory duties under the Freedom of Information and Environment Information Regulations. This group will provide assurance to the Information Governance Board
- Internal audit attends the North West Chief Audit Executive Counter Fraud subgroup which generally meets quarterly on fraud matters affecting the region, knowledge sharing and good practice.

Appendix A - Summary of Internal Audit Reports issued 2021/22

The table below provides a summary of the internal audit work completed. This will inform the annual Internal Audit opinion for the year 2021/22.

Audit	Assurance Level	Audit Findings					Coverage		
		Critical	High	Medium	Low	Advisory	GMCA	GMFRS	Waste
External Quality Assessment of Internal Audit (Q1)	TBC - Reporting						✓	✓	✓
Procurement – Contract Award (Q1)	TBC – In progress						✓	✓	✓
Programme and Project Governance (Q1)	TBC – In progress						✓	✓	✓

Grant Certifications					
BEIS Growth Hub Funding			Positive	✓	

The following tables show definitions for the Assurance Levels provided to each audit report and the ratings attached to individual audit actions.

Assurance levels

	DESCRIPTION	SCORING RANGE	DESCRIPTION
	SUBSTANTIAL ASSURANCE	1-6	A sound system of internal control was found to be in place. Controls are designed effectively, and our testing found that they operate consistently. A small number of minor audit findings were noted where opportunities for improvement exist. There was no evidence of systemic control failures and no high or critical risk findings noted.
	REASONABLE ASSURANCE	7-19	A small number of medium or low risk findings were identified. This indicates that generally controls are in place and are operating but there are areas for improvement in terms of design and/or consistent execution of controls.
	LIMITED ASSURANCE	20-39	Significant improvements are required in the control environment. A number of medium and/or high-risk exceptions were noted during the audit that need to be addressed. There is a direct risk that organisational objectives will not be achieved.
	NO ASSURANCE	40+	The system of internal control is ineffective or is absent. This is as a result of poor design, absence of controls or systemic circumvention of controls. The criticality of individual findings or the cumulative impact of a number of findings noted during the audit indicate an immediate risk that organisational objectives will not be met and/or an immediate risk to the organisation's ability to adhere to relevant laws and regulations.

Audit Finding Classification

Risk Rating	Description/characteristics	Score
Critical	<ul style="list-style-type: none"> • Repeated breach of laws or regulations • Significant risk to the achievement of organisational objectives / outcomes for GM residents • Potential for catastrophic impact on the organisation either financially, reputationally or operationally • Fundamental controls over key risks are not in place, are designed ineffectively or are routinely circumvented • Critical gaps in/disregard to governance arrangements over activities 	40
High	<ul style="list-style-type: none"> • One or more breaches of laws or regulation • The achievement of organisational objectives is directly challenged, potentially risking the delivery of outcomes to GM residents • Potential for significant impact on the organisation either financially, reputationally or operationally • Key controls are not designed effectively, or testing indicates a systemic issue in application across the organisation • Governance arrangements are ineffective or are not adhered to. • Policies and procedures are not in place 	10
Medium	<ul style="list-style-type: none"> • Minor risk that laws or regulations could be breached but the audit did not identify any instances of breaches • Indirect impact on the achievement of organisational objectives / outcomes for GM residents • Potential for minor impact on the organisation either financially, reputationally or operationally • Key controls are designed to meet objectives but could be improved or the audit identified inconsistent application of controls across the organisation • Policies and procedures are outdated and are not regularly reviewed 	5
Low	<ul style="list-style-type: none"> • Isolated exception relating to the full and complete operation of controls (e.g. timeliness, evidence of operation, retention of documentation) • Little or no impact on the achievement of strategic objectives / outcomes for GM residents • Expected good practice is not adhered to (e.g. regular, documented review of policy/documentation) 	1

Advisory	Finding does not impact the organisation's ability to achieve its objective but represent areas for improvements in process or efficiency.	0
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Appendix B – Progress against the Internal Audit Plan 2021/22

The table below shows progress made in delivery of the 2020/21 Internal Audit Plan.

Key: ○ Not Yet started ⊙ Scheduled ● In progress ● Complete

Directorate	Audit Area	Audit	Timing	Planning	Fieldwork	Draft Report	Final Report	Audit Committee	Comments
Corporate Services	Governance	Annual Governance Statement 2020/21	Q1	●	●	●	○		IA contributing to the update of the AGS
Corporate Services	Grants	Mandatory Grant Certifications	Q1-Q4	○	○	○	○		There are several grants requiring certification
Corporate Services	ICT	Cyber Security	Q1	●	⊙	○	○		Commencing July 2021
Corporate Services	Grants	BEIS Growth Hub Funding 2020/21	Q1	●	●	●	○		Three separate BEIS grants administered by the Growth Co.

Directorate	Audit Area	Audit	Timing	Planning	Fieldwork	Draft Report	Final Report	Audit Committee	Comments
Core Investment Team	Loans and Investments	Loan Approval Decisions	Q1	●	○	○	○		
Corporate Services	Procurement and Contracting	Contract Award and Finalisation	Q1	●	●	○	○		Fieldwork ongoing
GMFRS	Governance	Whistleblowing	Q1	●	●	○	○		Ongoing investigation
Corporate Services	Governance	Governance Framework	Q1	○	○	○	○		
Corporate Services	Governance	Programmes and Project Governance	Q1	●	●	○	○		Fieldwork ongoing
Education, Work and Skills	Finance	Adult Education Budget	Q1	○	○	○	○		
Corporate Services	Finance	Accounts Receivable	Q2	●	○	○	○		
GMFRS	GMFRS	Stores	Q2	○	○	○	○		
Corporate Services	Finance	Grant Funding Management and Reporting	Q2	○	○	○	○		

Directorate	Audit Area	Audit	Timing	Planning	Fieldwork	Draft Report	Final Report	Audit Committee	Comments
Public Sector Reform	Compliance	Supporting Families	Q2	●	○	○	○		Planning underway
Environment	TBC	Carbon Reduction	Q3	○	○	○	○		
Corporate Services	Finance	Budgetary Control	Q3	○	○	○	○		
Placemaking	TBC	Asset Compliance	Q3	○	○	○	○		
GMFRS	Training	Continuing Professional Development	Q4	○	○	○	○		
Mayoral	Governance	Mayoral Priorities	Q4	○	○	○	○		

Other Audit Activity		Quarter
Information Governance	Head of IA is a member of the IG Board, ongoing advice and oversight of IG risks through this forum.	All
Risk Management	Internal audit facilitates quarterly strategic risk register updates through the Senior Leadership Team and the ongoing development and implementation of a GMCA-wide risk management framework.	All

Audit action tracking	Internal audit will monitor and report on a quarterly basis the implementation of agreed audit actions	All
Whistleblowing investigations	Receipt and investigation of whistleblowing reports	As needed
Ad-hoc advice and support	Advice and reviews requested in-year in response to new or changing risks and activities.	As needed
Contingency days	Days reserved to address new or emerging risks	As needed

Appendix C - Changes to the Internal Audit Plan

The internal audit plan is designed to be flexible and can be amended to address changes in the risks, resources and/or strategic objectives. Similarly, management and the board may request additional audit work be performed to address particular issues. In line with Public Sector Internal Audit Standards (PSIAS) the Audit Committee should approve any significant changes to the plan. This Section records any changes to the current internal audit plan since it was originally approved in April 2021.

Audit Area	Audit	Timing	Days	Change requested	Rationale	Approved by Audit Committee
					There are no planned changes to the audit plan	

Appendix D - Executive Summaries for Final Issued Reports

Additional Home to School and College Transport Grant Certification



Department for Education
Sanctuary Buildings
Great Smith Street
London
SW1P 3BT

15 June 2021

To Whom it May Concern,

CERTIFICATE OF COMPLIANCE

Re: Grant Determination Letter for Additional Dedicated Home to School and College Transport under section 31 of the Local Government Act 2003 GRANT DETERMINATION 2020: No 31/5137

This declaration covers both the second Autumn term and the first Spring term, the respective funding received being £2,474,016 and £2,642,222.

To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Additional Dedicated Home to School and College Section 31 Grant S31/5137 have been complied with.

Notes

The following points should be noted in respect of the utilisation of the grant awarded of £5,116,238 and the unspent balance of the first Autumn term funding of £145,229.75

- (i) Revenue losses of £18,359.92 and survey costs of £462.50 were retrospectively allocated to the first Autumn term and unspent balance brought forward, reducing this balance to £126,407.33. This balance of funding being used up in the second part of the Autumn term.
- (ii) £2,181,578.96 was paid to local bus operators to provide duplicate commercial services for use by children and young people from home to their place of education.
- (iii) £345,127.00 was paid to 5 GM Local Authorities in respect of Special Education Needs and Disabilities transport support. Audit testing confirmed that payments were made based on email requests setting out how the funding would be applied by each Local Authority. TfGM did not ask for evidence of spend incurred so this was not tested.

- (iv) £6,165.50 was utilised in funding the internal staff costs of TfGM survey staff in monitoring the duplicate services.
- (v) £445,548.00 was utilised to fund TfGM revenue losses on school contracts where TfGM takes the revenue risk and fares income belongs to TfGM.
- (vi) £2,264,225.87 was not utilised in the period and was carried forward to be utilised in "Tranche 4" as permitted by the grant award letter for Tranche 4 dated 15 February 2021.

Signed:



Chief Executive



Head of Internal Audit

INTERNAL AUDIT REPORT

Arrangements for Mayoral Advisors

FINAL

Based on the audit work performed, this audit has been classified as LIMITED ASSURANCE.

**LIMITED
ASSURANCE**

Reference: 2020/21

Draft Report Issued: 30 November 2020

Final Report Issued: 24 June 2021

Audit Sponsor: Eamonn Boylan, GMCA Chief Executive Officer

Lead Auditors: Phoebe Scheel and Damian Jarvis

EXECUTIVE SUMMARY

1.1 Background and Context

The Constitution of the GMCA allows the Mayor to appoint one paid political advisor. The Mayor at their discretion can identify other individuals to provide advice on particular themes or topics. These individuals are referred to as "Mayoral Advisors".

The Mayor has also established advisory panels to help progress certain initiatives or provide collective advice from a diverse set of participants. Some of the panels are hosted by external organisations that receive grant funding to help administer and support the panel's activities. Not all panels have a Mayoral Advisor associated with them, and vice versa.

The appointment of Mayoral Advisors is entirely at the discretion of the Mayor and the GMCA has no involvement in their selection or appointment or in the oversight over their activities, though each Advisor is supported to some degree by a member of the GMCA Strategy and Policy Team.

1.2 Audit Objective

Internal Audit were requested by the Chief Executive to undertake a review of the arrangements in place around Mayoral Advisors and to confirm that GMCA does not remunerate Mayoral Advisors either directly or indirectly.

1.3 Scope

The scope of the audit was to assess whether:

- there are appropriate governance/transparency arrangements in place in relation to Mayoral Advisors that clearly establish the relationships between Mayoral Advisors, GMCA (or TfGM/subsidiaries as appropriate) and advisory panels.
- payments to Mayoral Advisors have been made from GMCA, TfGM or subsidiaries and if so, that proper processes have been followed in making any such payments; and
- any or any part of grant payments made to advisory panels is used to pay any of the Mayoral Advisors.

Limitations:

This audit is limited to the arrangements in place between Mayoral Advisors and GMCA, TfGM and/or subsidiaries. It will not seek to examine the Mayor's decision to designate an individual as a Mayoral Advisor or the nature of the advice provided to the Mayor.

We have not engaged directly with any of the Advisors as part of this review.

We do not provide any assurance over contracts awarded to Advisors or their companies and whether these were subject to any competitive process and met contract and procurement rules.

1.4 Audit Opinion

Overall, we provide a **limited assurance** opinion over the arrangements in place around Mayoral Advisors. This is primarily due to the lack of transparency and governance arrangements over the roles. The audit confirmed that none of the Mayoral Advisors have been directly remunerated by GMCA specifically for their advisory role, though two Advisors have also been appointed into paid consultancy roles. The payment arrangements in place for one Advisor, and possible conflicts of interest for another Advisor are also reflected in this opinion.

Our work looked at the arrangements around the appointment and remuneration of the following individuals:

- [REDACTED], appointed by the Mayor as the LGBT Advisor. Is a member of the LGBT Advisory Panel.
- [REDACTED] appointed by the Mayor as the Night-time Economy Advisor. Chairs the Night-time Economy Panel; co-Chairs the Night-time Economy Covid-19 Taskforce.
- [REDACTED], appointed by the Mayor as Cycling & Walking Commissioner, which is a paid consultancy role within GMCA, working across TfGM.
- [REDACTED], appointed by the Mayor to lead the Our Pass initiative, which involved a paid consultancy role within TfGM. Subsequently appointed as Chair of the Social Enterprise Advisory Group.
- [REDACTED], appointed by the Mayor to Chair the Young Person's Taskforce, responsible for developing the 'Young Person's Guarantee'.

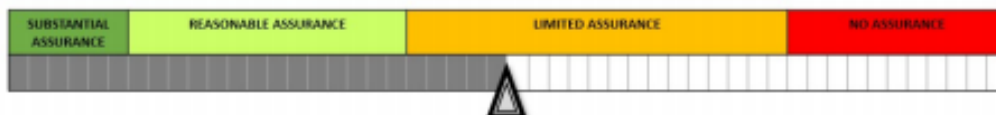
Appendix 1 to this report outlines our detailed findings for each of the above individuals within the areas of consideration.

There are a number of benefits and advantages to be gained from the appointment of Mayoral Advisors, advisory panels and groups to help influence and shape local policy and strategy, and to engage business leaders and other stakeholders. This is a model that a number of Mayoral Combined Authorities, and in particular the London Mayoral Office, have utilised.

The Strategy and Policy Team within GMCA drafted a discussion paper earlier in 2020 on the subject of Mayoral Advisors and advisory groups, with the purpose of standardising the Advisor/panel process. The remit of this review was wider than this audit, but identified many of the same issues, such as lack of consistency in the terminology ('advisor' versus 'commissioner'), lack of transparency, and unclear governance. Unfortunately, due to the outbreak of the COVID pandemic and shifting priorities, this paper was not progressed as planned. A summary of the key recommendations included in that paper are set out below. We recommend that this be picked up again and actioned:

- Having a clear definition of the terms used (Mayoral Advisor; advisory panel; advisory group etc).
- Having a set of principles and protocols which establish the minimum standards for the operation of Advisors and advisory panels (including 'role descriptions' for Advisors, and operational standards such as written accounts of meetings, annual reports, etc).
- That Advisors and panels have a clear line of accountability and engagement to the formal governance arrangements of the GMCA.
- Better collaboration and coordination between Mayoral Advisors and panels.

We understand there is also work taking place within the Growth Company to implement a process which will allow greater transparency and due diligence over Advisors' business interests and in particular where they engage with businesses directly as part of their advisory role. This will be a positive step forward in seeking to ensure these relationships are managed appropriately. This work is also seeking to facilitate regular meetings between the Advisors to better coordinate their activities and objectives.



The scoring is based on the rating mechanism provided in Appendix 2.

1.5 Summary of Exceptions/Areas for Improvement

Finding	Risk Rating				
	Critical	High	Medium	Low	Advisory
1. The appointment process and governance arrangements over Mayoral Advisors is informal and inconsistent		X			
2. Payments to Mayoral Advisors and use of grant funding for Mayoral panels			X		
3. The award of contracts or loans to organisations linked to Mayoral Advisors could be perceived to be as a result of their personal relationship with the Mayor			X		
4. There is a lack of transparency over the work of the Mayoral Advisors and advisory panels			X		
TOTAL		1	3		

Control design vs Operating effectiveness

All of the audit findings relate to issues in the design of controls (Control Design) rather than as a result of controls not being applied effectively (Operating effectiveness).

1.6 Organisational Implications

The appointment of unelected and unpaid Advisors to the Mayor may lead to political sensitivities and objections from Districts over the nature and purpose of the appointments. Lack of an appropriate control and accountability framework for these key appointments to operate within may lead to inconsistent practices and unclear expectations.

This could also lead to the potential for perceived conflicts of interest, particularly around business engagement, and a failure to manage this could lead to reputational damage for the Mayor and GMCA.

There have previously been FOIA requests in respect of payments made to Mayoral Advisors and our ability to respond promptly and accurately is dependent on having greater governance and transparency.

1.7 Management Response

The Deputy Chief Executive will lead on the development of a protocol to address the issues raised in the audit review by September 2021.

Waste and Recycling Contracts – Payment and Verification Processes



INTERNAL AUDIT REPORT

Waste and Recycling Contracts – Payment and Verification Processes

FINAL

Based on the audit work performed, this audit has been classified as REASONABLE ASSURANCE .	REASONABLE ASSURANCE
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Reference: 2020/21

Draft Report Issued: 21 May 2021

Final Report Issued: 25 June 2021

Audit Sponsor: David Taylor, Executive Director Waste and Resources

Lead Auditor: Jessica Jordan

Head of Audit and Assurance: Sarah Horseman

EXECUTIVE SUMMARY

1. Background and Context

- 1.1 The two main GM Waste and Recycling Contracts came into operation on 1 June 2019, with Suez Recycling and Recovery UK (Suez) the contractor: (1) Waste and Resource Management Services (WRMS); and (2) Household Waste Recycling Centre Management Services (HWRCMS). The third element is for the treatment of biowaste which is partly managed through the WRMS contract and partly through a framework agreement.
- 1.2 The Greater Manchester Combined Authority (GMCA) is responsible for the Waste Disposal Functions for nine of the ten GM districts (with the exception of Wigan) and is the accountable body for the management of the contracts.
- 1.3 The estimated contract value for WRMS and HWRCMS contracts over the initial agreed period is approximately £453million (there is an option to extend these contracts for a further period of up to 8 years at an estimated value of £586m), and the agreed budget for the waste service for 2021/22 is £167.2m. The costs of the contracts are met through recharges made to the nine districts and from income generated by the recycling element of the waste service.
- 1.4 The COVID-19 pandemic and impact of lockdown did affect service delivery with the temporary closure of Household Waste Recycling Centres during 2020 and cost pressures to GM districts. To assist with this a refund of levy to districts for 2019/20 and adjustment to the levy for 2020/21 was agreed. The UK also agreed the terms of its exit from the European Union, and any potential commercial risks linked to the structure of the contracts have been kept under review.
- 1.5 This audit sought to provide assurance over Waste and Recycling contract(s) payment processes.

2. Audit objective and scope

- 2.1 The objective of this audit was to provide independent assurance over the core payment processes in place for the Waste and Recycling contracts, ensuring there are adequate cost control arrangements, invoicing and payment structures and deductions.
- 2.2 In line with the audit objective, our testing focused on the following areas:
 - Monthly Supplier invoice calculations, verification, and payment processes for WRMS, HWRCMS and Biowaste contracts.
 - Capital programme payment processes for major projects.

Limitations:

2.3 We have not provided assurance over the following areas:

- District funding requirement calculations, agreement, and receipt processes.
- Budget management and monitoring processes, including cash flow forecasts or levy adjustments.

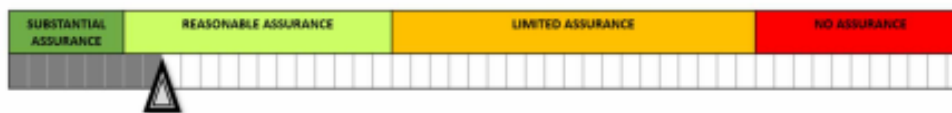
2.4 The generation of supplier invoices is dependent on the results of performance monitoring activity undertaken by GMCA; however, it was not our intention to fully audit these processes as part of this work beyond how agreed performance activity is converted into penalties within the monthly invoice process.

2.5 Whilst we did review the process used to verify tonnage claimed within the invoice process, the complexity of waste categories meant it was not possible for us to fully verify the contents of each tonnage category. We did provide logical checks to ensure that tonnage is not double counted within categories and that none of the categories include types of waste that would appear as obvious errors (e.g. glass waste in a biowaste category).

3. Audit Opinion

3.1 We provide a **reasonable assurance opinion** over the controls in place to calculate, verify and pay invoices for the Waste and Recycling contracts. Our findings relate to minor control issues or omissions as opposed to anything significant. A considerable amount of effort goes into ensuring that payments made are accurate and properly validated however, the complexity and size of the pay mechanisms for the two Suez contracts means there is the opportunity for small input errors to be missed. Dependent on where in the mechanism these are made and the timing of these during the year, there is a potential risk that errors can quickly escalate into large value overpayments if not promptly rectified.

3.2 The actions agreed in section 3.5 should help to ensure that going forward such errors can be quickly identified and corrected before any escalation occurs.



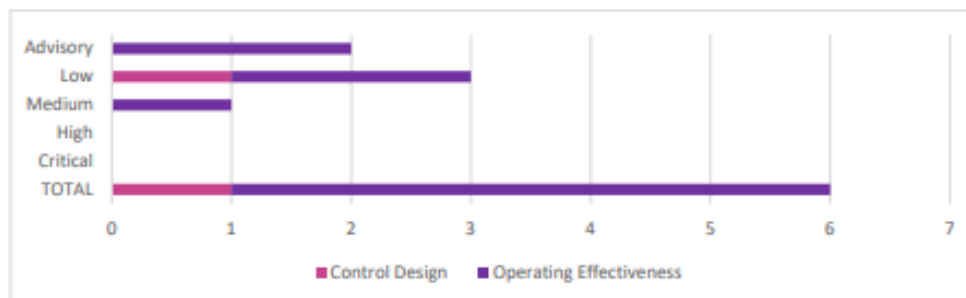
The scoring is based on the rating mechanism provided in Appendix 1

3.3 Summary of Exceptions/Areas for Improvement

Finding	Risk Rating				
	Critical	High	Medium	Low	Advisory
1. Final version of the finance spreadsheet for each month is not matched to the pay certificate values to ensure continuity of billing calculation.			X		
2. Double counting of some tonnage elements was not identified by tonnage checks until notified by Suez at the end of quarter 1.				X	
3. Verification checks are not undertaken on the percentage recycling rates provided by Suez and used in the payment mechanism.				X	
4. Small value overpayments have been made for a two of the 'other' amounts included in the invoice.				X	
5. A record of capital payment approvals given by the Head of Engineering and Asset Management not retained on file.					X
6. Minor differences in the Finance calculations spreadsheet to the Suez spreadsheet and contract methodology.					X
TOTAL			1	3	2

Control design vs Operating effectiveness

The table below shows how many of the audit findings relate to issues in the design of controls (Control Design) and how many are as a result of controls not being applied effectively (Operating effectiveness).



3.4 Organisational implications

As at April 2021, there are no strategic risks recorded on the GMCA Strategic Risk Register which are in direct relation to the scope of this work and management of the Waste and Recycling Contracts. In our discussions with Management they were assured that the monthly reconciliation process generally worked well with no major differences being identified during this process and the Suez payment model was considered to be much improved compared to the model used under the previous contract.

Performance Management and Reporting Framework



INTERNAL AUDIT REPORT

Governance – GMCA Performance Management and Reporting Framework

FINAL

Based on the audit work performed, this audit has been classified as LIMITED ASSURANCE.	LIMITED ASSURANCE
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Reference: 2020/21

Draft Report Issued: 19 May 2021

Final Report Issued: 28 June 2021

Audit Sponsor: Andrew Lightfoot, Deputy Chief Executive

Lead Auditors: Damian Jarvis and Phoebe Scheel

EXECUTIVE SUMMARY

1. Background and Context

- 1.1. The GMCA's Code of Corporate Governance sets out the organisation's governance standards and the framework for carrying out its functions with accountability, transparency, effectiveness, integrity, and inclusivity. The Annual Governance Statement (AGS) sets out how well the GMCA has met its own governance standards, with an action plan for continuing to improve governance over the coming years.
- 1.2. Governance is defined as "the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved" (*CIPFA, International Framework: Good Governance in the Public Sector*). To achieve intended outcomes, a robust system of performance monitoring is necessary.
- 1.3. The Greater Manchester Strategy (GMS) sets out a vision and overall ambition for the region, structured around 10 priorities. Achievement of these priorities guides decisions around allocation of resources, investment, commissioning, and financial strategies, and thus, understanding how the organisation is performing is key. Underpinning the GMS is an Outcomes framework, which sets targets and measures for each of the priorities, and performance against these targets is published in a six-monthly dashboard.
- 1.4. As a result of the COVID-19 pandemic, a revised one year 'Living with Covid Resilience Plan' was produced as a short-term strategy for GMCA prior to the full GMS being revised in 2021. This in turn led to changes to Directorate business plan priorities and delivery targets.
- 1.5. The 2020/21 Internal Audit Plan included a rolling programme of work over various aspects of the Code of Corporate Governance. This review will focus on the GMCA performance management and reporting framework.

2. Audit objective and scope

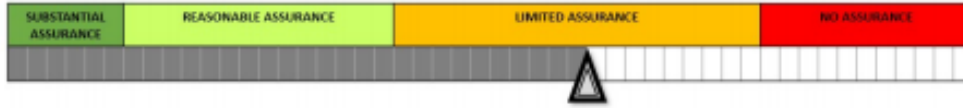
- 2.1. The audit assessed the effectiveness of the organisation's performance management and reporting framework operating at both strategic and directorate level.
- 2.2. This audit focussed on the following activities:
 - Performance monitoring and reporting arrangements: ensuring processes are clearly defined, including reporting expectations at Directorate, ELT, SLT and CEMT level.
 - Reporting at Board level, including oversight and scrutiny arrangements.
 - GMS priorities alignment with GMCA business plans demonstrating a 'golden thread' of priorities and activities at all levels and supported by relevant measures and targets.
 - Mechanisms for ensuring data feeding into the performance reports is accurate, timely, and relevant, and reports are produced and scrutinised as per expectations.
 - Consideration of 1:1 employee appraisal process on individual performance management.
- 2.3. **Limitations:** The audit will consider the activities of GMCA but will exclude GMFRS, and Police and Crime.

3. Audit Opinion

- 3.1. Overall, we can provide a limited assurance opinion over the design and effectiveness of the organisation's performance management and reporting framework. This is primarily due to the

lack of a formally defined corporate process for reporting on organisational delivery beyond the GMS outcomes framework, which is much wider than GMCA as an organisation.

- 3.2. Our discussions with Directors and other senior staff from across GMCA were designed to understand what forums and mechanisms they use to monitor performance within their own areas of responsibility, and how they feed upwards into wider performance monitoring reports. It was largely considered a “work in progress” area with a desire for greater consistency over how we report and evidence progress on delivery of key priorities. Whilst it is acknowledged that there are areas of good practice operating – for example, the Work & Skills Contract Performance dashboard, Waste & Recycling Contract Reporting and Digital Programme governance – overall there is no consistent approach and limited GMCA-wide visibility of performance of the organisation as a whole against its aims and objectives. This may present a risk that the organisation is unable to demonstrate to stakeholders that it is delivering what it has been tasked with.
- 3.3. Though financial reporting was not the main focus for this audit, ideally the performance and financial reporting frameworks would be closely aligned. However, it was noted that there is also lack of rigour over financial reporting, and that the budget setting process is not as informed by the organisational strategy as it ought to be.
- 3.4. We have made two high and two medium risk level recommendations with the intention of providing overarching principles of what a robust Performance Management Framework for GMCA should look like. We have aimed to avoid being too prescriptive, understanding that this is a developing area that requires reflection and input from across the organisation to ensure that whatever framework is ultimately agreed upon is both workable and practical and provides the necessary level of assurance over organisational performance and delivery.
- 3.5. Firstly, the principles for a GMCA-wide performance management framework should be set out in a report to the GMCA Board for approval. This should be developed in consultation with CEMT /SLT and ELT to ensure full engagement and agreement with the principles. As a minimum, this should include: an agreement of the need for a succinct but comprehensive set of KPIs / measures / outcomes (to be defined within the annual Business Plan and linked to organisational delivery); the frequency at which these KPIs will be calculated and reported; and the forums / groups (both internal and external) that will have sight of and scrutiny/challenge over the reported figures.
- 3.6. Secondly, the refreshed GMS and implementation plan should clearly identify those actions/activities that are the responsibility of the GMCA to deliver (either wholly or as a partner/influencer). All such actions/activities should be included in the GMCA Business Plan to ensure that there is a direct and explicit link between Business Plan priorities and GMS priorities. The GMCA Business Plan should, wherever possible, include defined and measurable targets and timescales for the delivery of planned activities.
- 3.7. Directorates should report actual performance against the targets and timescales of activities as defined in the Business Plan on at least a quarterly basis. This could be presented in a dashboard / RAG-rated format with brief supporting narrative; this should link to, or incorporate, financial reporting.
- 3.8. Finally, there is no clear corporate oversight of all planned/active programmes and projects being undertaken across GMCA which is a key part of organisational delivery, so we have proposed creating a register to track and monitor the details of funding terms, responsibility, and delivery outcomes.
- 3.9. The ongoing development and roll out of the GMCA Risk Management framework and supporting processes remains the route for escalating any significant concerns which may affect the achievement of GMCA strategic objectives.



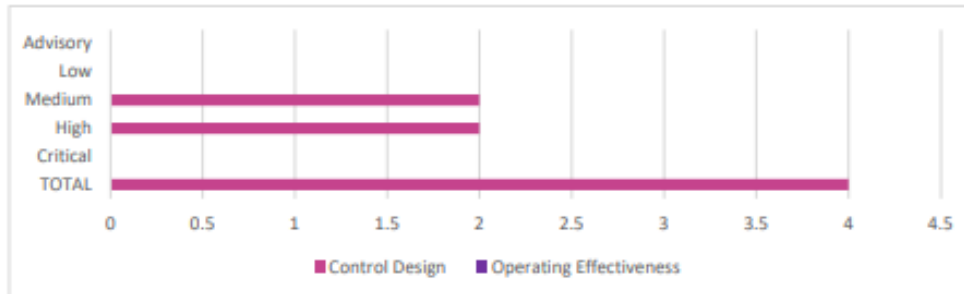
The scoring is based on the rating mechanism provided in Appendix 1

4. Summary of Exceptions/Areas for Improvement

Finding	Risk Rating				
	Critical	High	Medium	Low	Advisory
1. Develop and agree a GMCA Performance Management Framework		X			
2. Ensure alignment between the GMS and GMCA Business Plan priorities, including specific and measurable targets and timescales			X		
3. Report on actual delivery against the KPIs and Business Plan activities		X			
4. Development of a corporate register of all planned and active programmes and projects			X		
TOTAL		2	2		

Control Design vs Operating Effectiveness

The table below shows that all of the audit findings relate to issues in the design of controls (Control Design), as opposed to controls not being applied effectively (Operating effectiveness).



5. Organisational implications

The efficient design and effective operation of a performance management framework will have an impact on all areas of the organisation. Ability to demonstrate actual delivery of key aims and objectives against targets and expectations is fundamental to ensure the organisation is successful.