GMCA

GREATER
MANCHESTER
COMBINED
AUTHORITY

GMCA AUDIT COMMITTEE

Date: 22 April 2022

Subject: Internal Audit Effectiveness

Report of: Sarah Horseman, Head of Audit and Assurance

PURPOSE OF REPORT

The purpose of this report is to share with Members of the Audit Committee the three-year internal audit plan and the operational internal audit plan for 2022/23.

RECOMMENDATIONS:

Members are requested to approve the Internal Audit Plan.

CONTACT OFFICERS:

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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	

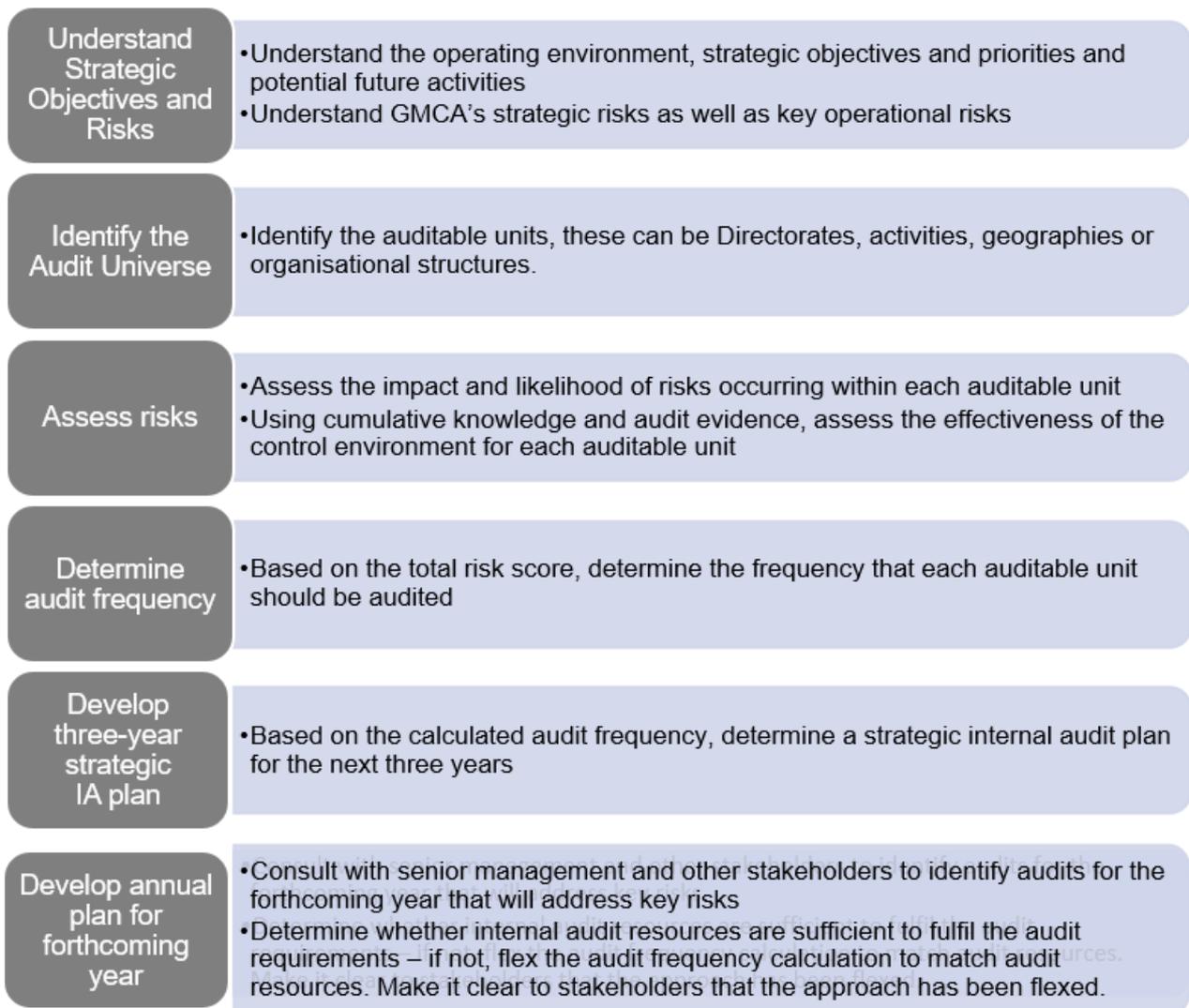# GMCA Internal Audit Plan 2022/23

April 2022

Introduction

This document sets out the three-year strategic internal audit plan and the proposed 2022/23 internal audit plan for TfGM. The planning process is based on Internal Audit's understanding of TfGMs current strategic and operational risks and as such is designed to provide assurance over key risk areas.

Approach

Internal Audit services will be provided in line with the Internal Audit Charter.

Our approach to developing the plan is set out below.

Understand Strategic Objectives and Risks	• Understand the operating environment, strategic objectives and priorities and potential future activities • Understand GMCA's strategic risks as well as key operational risks
Identify the Audit Universe	• Identify the auditable units, these can be Directorates, activities, geographies or organisational structures.
Assess risks	• Assess the impact and likelihood of risks occurring within each auditable unit • Using cumulative knowledge and audit evidence, assess the effectiveness of the control environment for each auditable unit
Determine audit frequency	• Based on the total risk score, determine the frequency that each auditable unit should be audited
Develop three-year strategic IA plan	• Based on the calculated audit frequency, determine a strategic internal audit plan for the next three years
Develop annual plan for forthcoming year	• Consult with senior management and other stakeholders to identify audits for the forthcoming year that will address key risks • Determine whether internal audit resources are sufficient to fulfil the audit requirements – if not, flex the audit frequency calculation to match audit resources. Make it clear to stakeholders that the approach has been flexed.

Details of the risk assessment criteria are provided in Appendix 1.

Key planning principles

The process above has been followed in order to undertake a risk-assessment and develop an audit plan. However, the following principles are also applied:

Risk-based approach: Each auditable unit in the Audit Universe has been assessed to determine its Inherent Risk which is determined by assessing the financial and reputational risk of each unit or activity. Cumulative audit knowledge and recent internal audit evidence is also used to assessed the strength of the control environment which may increase or decrease the overall risk score.

This results in a risk score which drives the frequency of audits within each unit, over a 3-5 year period. Scores over 40 are audited annually, 31-40 every two years, 21-30 every three years. Anything 20 or below is considered for inclusion every 5 years.

Agility and Relevance: As recent years have demonstrated, the need for regular review of the internal audit plan and risk assessment is essential due to the nature and pace of change. Increasingly, internal audit teams are moving to a rolling audit plan as opposed to setting out a forward look for the next 12 months as so often risks and/or priorities change.

Other sources of assurance: When determining the internal audit plan, the Head of Audit and Assurance considers other sources of assurance available. Assessments undertaken by external parties (eg regulator audits such as HMICFRS or the ICO) as well as the work undertaken by external audit and any Line 2 assurance provided by other internal activity such as the Operational Assurance Team within GMFRS. Continued focus will be maintained on coordinating Line 2 and Line 3 activities to ensure an integrated approach to audit and assurance.

It is important to note that internal audit will not provide assurance over all key risks in any given year, Appendix 2 shows the linkage of the audit plan to GMCA's Strategic Risks and key organisational and operational risks. This demonstrates how over time, assurance over the mitigating activities put in place to manage strategic risks is gathered.

Audit Universe

For planning purposes the Audit Universe has been defined as follows

Risk Assessment and Strategic Internal Audit Plan

The table below shows the result of the risk assessment undertaken by internal audit over the audit universe. This informs the frequency of audit activity. The table has been ordered in <u>descending order</u> of risk and shows the number of audits to be undertaken each year for each Directorate/activity.

Directorate / Activity	Residual Risk Score	Audit frequency	2022/23	2023/24	2024/5
GMFRS	60	Annual	3	3	3
Cross cutting: Capital Programmes	55	Annual	2	2	2
Corp Services: Finance	54	Annual	3	2	2
Police, Crime, Fire & Criminal Justice*	50	Annual	0	0	0
EWS: Education	48	Annual	1	1	1
Waste and Resources	48	Annual	1	1	1
Digital: ICT Services	44	Annual	2	1	1
Corp Services: Information Governance	40	Every 2 years	1	1	
Corp Services: Legal/Governance	40	Every 2 years		1	
Cross cutting: Grant management and reporting	40	Every 2 years	1	1	1
Corp Services: HROD / H&S	36	Every 2 years	1		1
Environment	36	Every 2 years	1		1
Cross cutting: Programmes and Project Management	30	Every 3 years			1
Corp Services: Core Investment	28	Every 3 years	1		
Digital: GM Digital	28	Every 3 years	1		
Economy	28	Every 3 years			1
Cross Cutting: Risk Management	24	Every 3 years			1
EWS: Work & Skills	24	Every 3 years		1	
Place	24	Every 3 years			1
Public Service Reform	24	Every 3 years		1	
Corp Services: Commercial	21	Every 3 years	1		
Cross cutting: Planning and Performance	21	Every 3 years	2		
Mayoral Priorities	20	Every 5 years			
Corp Services: Communications and Engagement	18	Every 5 years			
Corp Services: Research	18	Every 5 years			
Corp Services: Strategy	18	Every 5 years			
Corp Services: Audit	12	Every 5 years			

*Audits for Police, Crime, Fire and Criminal Justice are undertaken by the GMP audit team.

2022-23 Internal Audit Plan

The proposed Internal Audit Plan for 2022/23 is detailed below. There are 19 audits in the plan which may not be deliverable with the level of resources in the team. The plan will be prioritised based on risk and will be agreed with management on a quarterly basis with updates provided to Audit Committee regularly.

Directorate / Activity	Audit
GMFRS	**Maintenance and testing of equipment** – an audit to assess processes and controls in place for routine testing of equipment on appliances and in stations. *Q1
	Road Safety Partnership – in conjunction with GMP and TfGM an audit to review the structure and effectiveness of the Road Safety Partnership
	Station Standards – an audit of the Station Standards framework and its application
	Safeguarding and DBS – an audit of the arrangements in place to ensure appropriate safeguarding arrangements are in place and that DBS checks are undertaken in line with requirements.
Cross cutting: Capital Programmes	**Deep Dive**: An audit of the arrangements in place over a sample of current capital programmes.
Corp Services: Finance	**BWO access rights** – An audit to assess processes and controls in place over access to the finance system (BWO) including a review of current users.
	Non-A/R Income – following on from the A/R audit in 2021/22, an audit of income that does not fall within the A/R process
	Treasury Management – Given the Treasury function is being brought in house in 2022/23, an audit of the arrangements in place to effectively undertake that activity.
EWS: Education	**Adult Education Budget:** Scope to be agreed in-year
Waste and Resources	**Waste Estates:** Scope to be agreed in-year
Digital: ICT Services	**ICT Audit Needs assessment** – a risk based evaluation of current arrangements which will identify areas of future focus for internal audit resources. Q1
	IT Asset Management – An audit of the processes in place around the management of assets (issue, tracking, return, disposal)
	User Acceptance Testing – An audit of the arrangements in place to ensure appropriate User Acceptance Testing is undertaken when new applications are implemented or upgrades are undertaken.
Corp Services: Information Governance	**CCTV**: An audit of the arrangements in place to ensure the GMCA's CCTV estate is fully understood and sufficient Information Governance arrangements are in place.

Cross cutting: Grant management and reporting	**Grant Certifications**: Ongoing certifications of grants as required by grant conditions.
	Grant management process: Assessment of the effectiveness and efficiency of the grant management process. *Q1
Corporate Services – HROD	**Use of contractors:** Review of processes and controls around the appointment and use of consultants/contractors.
	Investigation processes: An audit of the process for receiving, triage, commissioning of investigations, monitoring and reporting outcomes of whistleblowing, grievance and complaints processes.
Environment	**Public Sector Decarbonisation:** Grant certifications for the £78m grant awarded to GM. Q1
Corp Services: Core Investment	**External Loans**: Assurance over monitoring and reporting arrangements for externally managed loans (MGC) and others
Digital: GM Digital	**GM One:** GMCA are responsible for the contract for the operation of the GM One network. This audit will examine the arrangements in place for monitoring the performance of the contract and service provided to other partners.
Corp Services: Commercial	Scope to be agreed in year
Cross cutting: Planning and Performance	**Performance management:** As part of following up on previous audit actions, this will assess the operating effectiveness of the performance management framework.
	Budgetary Control: A review of the budgeting and monitoring process across GMCA *Q1/2
Public Sector Reform	**Supporting Families:** As in previous years, GMCA will collate the work undertaken in districts in relation to the Supporting Families programme and report the results.

Other Internal Audit Activities

In addition to the audits outlined above, Internal Audit also undertake the following activities.

- Whistleblowing and Counter Fraud Response
- Counter Fraud Policy maintenance
- Audit action tracking
- Assurance mapping

Due to the ad-hoc and unpredictable nature of whistleblowing and counter fraud response, there may be a requirement to revisit the rest of the audit plan (or the resourcing model) to allow resource to be dedicated to investigations as required.

Appendix 1 – Planning Methodology and Rating Criteria

Risk assessment within the Internal Audit planning process is carried out in a number of steps which are set out as follows:

Step 1 – Impact

Assess the impact of a risk crystallising in each auditable unit against a number of financial, operational and strategic criteria. The rating mechanism used is set out below

Impact	1 = Low	2 = Medium	3 - High
Materiality	Not a material financial amount associated with the activity. Revenue AND capital budgets < 10m	Revenue OR Capital budget 10-50m	Revenue or Capital budget > 50m
Pervasiveness or Statutory Function	Impact isolated to specific activity/funding stream Not a statutory function	Risk affects delivery within one or more directorates OR Risk of isolated breach of statutory requirement	Pervasive impact across either all functions of the GMCA that would impact operations OR repeated breach of statutory requirement / failure to deliver function (eg Fire/Waste/AEB)
Corporate Risk Register	Not linked to a risk on corporate risk register (strategic or escalated risk)	Indirect link to a risk on Corporate Risk Register	Direct link to risk on the Corporate Risk Register
Reputational	None or isolated complaints.	Poor local publicity curtails ability to operate effectively without active stakeholder engagement.	Serious poor publicity. Affects trust in GMCA

Step 2 - Calculate the Inherent Impact Score.

This is the sum of each of the scores for the four criteria. The range of impact scores is 4 to 12

Step 3 – Likelihood

Assess the likelihood of a risk crystallising. This assessment is based on the frequency of transactions, complexity of activity, stability of environment and policy. Rating mechanism is as follows:

Score	Description	% Likelihood
5	Risk is frequently encountered	80-100%
4	Likely to happen in the next year	60-80%
3	Likely to happen in the next two years	40-60%
2	May occur in the next three years	20-40%
1	May occur in exceptional circumstances	0-20%

Step 4 – Calculate the Inherent Risk Score.

Inherent Risk Score = (Inherent Impact Score) x (Likelihood)

Inherent Risk Scores range from 4 to 60

Step 5 – Assess the Control Environment

Internal Audit may have prior knowledge and experience of the control environment within auditable units. This could be through previous audit work or other sources of assurance. The control environment factor will apply a factor to the risk score that will increase the risk if it is known that the control environment is weak or reduce the risk score if it is known that the control environment is strong. If there is no knowledge (or no recent knowledge) of the control environment then no factor is applied. The following criteria are used to determine what control environment factor should be applied.

Score	Criteria	Control Environment Factor
1	Evidence that control environment requires improvement through previous audit work and/or issues	2
2	Cumulative Audit Knowledge that CE requires improvement or older evidence where improvements were required	1
3	No recent evidence that would influence knowledge of control environment	0

4	Older evidence supporting adequate control environment OR Recent evidence showing generally OK CE but with some areas for improvement (eg report rating of Major/Significant)	-1
5	Recent (last 12 months) IA evidence supporting adequate control environment OR Recent assurance provided from other sources (eg external sources)	-2

Step 6 – Calculate the Resultant Risk Score

The resultant risk score applies the Control Environment Factor determined above.

Resultant Risk Score = (Inherent Impact Score) x ((Likelihood) + (Control Environment Factor))

Applying the control environment factor could increase a risk score to a maximum of 84

Step 7 – Determine the Audit Frequency

Based on the Resultant Risk Score, the audit frequency for each auditable unit can be determined. The following ranges are applied

Resultant Risk score	Frequency
>40	Annual
31-40	Every 2 years
21-30	Every 3 years
0-19	For consideration every 5 years

Step 8 – Align audit requirements to available resources

Based on the frequency of audits within each auditable unit, an initial assessment of resources can take place. If the audit team does not have sufficient resources to undertake the audit programme then the Audit Frequency range can be flexed. This is achieved by changing the ranges for each frequency, for example instead of annual audits taking place for anything with a score of 45 or more, this could be flexed to anything over 50 or more, which may reduce the number of annual audits.

If this approach is used, in line with PSIAS, the Head of Internal Audit must communicate the impact of resource limitations to senior management and the Audit Committee - as a sub-optimal amount of audit work will be proposed.