

GMCA Audit Committee

Date: 30 June 2020

Subject: Review of Effectiveness of Internal Audit

Report of: Steve Wilson, GMCA Treasurer

PURPOSE OF REPORT

The GMCA 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 2019/20 and actions proposed to ensure ongoing effectiveness and quality of the GMCA Internal Audit service.

RECOMMENDATIONS:

The Audit Committee is requested to consider the review of effectiveness for 2019/20 and to endorse the Quality Assurance and Improvement Programme (QAIP) for 2020/21.

CONTACT OFFICERS:

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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 2019/20 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 2019/20

- 2.1 The following attributes have been considered when assessing effectiveness of the Internal Audit service for 2019/20:
 - 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 2019/20 has been effective insofar that it has focused on key areas of risk and has been undertaken in line with PSIAS. The level of resource for the team in the year has been insufficient to deliver the approved internal audit plan due to the length of time required to approve the team structure and recruit to posts. Changes to the plan to adjust for the lack of resources were approved in-year by the Audit Committee. However, going forwards, as all posts are now recruited to, the team will be able to deliver the amount of work planned. Reporting to the Audit Committee has been effective and the Audit Committee were instrumental in gaining approval for one of the auditor posts.

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).

At the time there were no other Internal Audit resources in place to deliver the GMCA internal audit plan, so MCC continued to provide support to GMCA to deliver internal audit services in Q1 of 2019/20.

The Head of Audit and Assurance presented a Service Improvement Plan to GMCA in order to establish a team to deliver the GMCA Internal Audit service. Approval was granted for an additional 2.5 FTE resources. These posts were appointed in 2019/20, with the Internal Audit Manager commencing employment in November 2019 and the two Principal Auditors in March 2020.

The Structure of the Internal Audit service is shown below:



Whilst the Internal Audit service is now at full capacity, this has not been the case for much of 2019/20 so the volume of internal audit work delivered has been less than initially planned. The Audit Committee have been kept regularly apprised of the resourcing levels within the team and were instrumental in getting approval for the second Principal Auditor role to be recruited within the year.

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

Work undertaken by MCC in Q1 of 2019/20 was subject to MCC's quality assurance procedures. This includes:

- internal quality assurance processes which measure conformance to PSIAS
- periodic external assessments of the Internal Audit function which was last carried out in 2017 and the actions resulting from that incorporated into a development plan which is monitored and reported to MCC Audit Committee on a regular basis.

Since bringing the GMCA team in-house as internal audit work has been undertaken by the Internal Audit Manager (previously a member of the MCC team) in line with PSIAS standards. A new Quality Assurance Improvement Programme (QAIP) has been developed for 2020/21 which sets out the process for measuring and monitoring compliance with PSIAS going forwards. See Section 3 for more information on the QAIP.

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

The internal audit plan for 2019/20 took into consideration the change in arrangements from MCC to the in-house team and did not plan for audit fieldwork to be undertaken in Q2 to allow for establishment of the GMCA team. However, due to the length of time it took to recruit to the posts the volume of planned audit work for the second half of the year could not be delivered.

Internal Audit met with Heads of Service in order to understand their priorities, high level risks and any specific areas for audit activity for the year. Based on these discussions, the 2019/20 plan was reprioritised in order to focus the limited internal audit resource at areas of highest risk and/or focus for GMCA. Whilst the volume of work delivered was less than planned, the work that was delivered did focus on key risk areas where other sources of assurance were not already in place.

2.3.4 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.

2.3.5 Implementation of Internal Audit recommendations

Progress with the implementation of internal audit recommendations has historically been reported to the Audit Committee by the Management. As at June 2020, management reported that 72% of audit actions were either implemented or partially implemented.

From Q2 2020/21, Internal Audit are going to take 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.

Proposed KPIs for audit action implementation suggest an on-time implementation rate of 85%.

3 Looking ahead – Quality Assurance and Improvement Programme (QAIP)

- 3.1 The Head of Audit and Assurance has developed a QAIP for implementation in the coming financial year 2020/21. This is Included in Appendix 1 to this report. **The Audit Committee are requested to review and endorse the QAIP.**
- 3.2 A QAIP is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 3.3 The proposed QAIP 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
- 3.4 Going forwards, the results of the QAIP and progress against any improvement plans will be reported in the Internal Audit Annual Report.