

**GMCA Audit Committee**

Date: 30 June 2020

Subject: Head of Internal Audit Annual Opinion 2019/20

Report of: Sarah Horseman, Head of Audit and Assurance

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**PURPOSE OF REPORT**

The Internal Audit team delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Greater Manchester Combined Authority (GMCA). In accordance with Public Sector Internal Audit Standard 2450 this work is required to culminate in “an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”

This report provides Members of the Audit Committee with the Head of Internal Audit Opinion on the effectiveness of the framework of governance, risk management and internal control at Greater Manchester Combined Authority (GMCA) for the year ended 31 March 2020.

**RECOMMENDATIONS:**

Members are requested to consider and comment on the Head of Internal Audit Opinion 2019/20

**CONTACT OFFICERS:**

Sarah Horseman, Head of Audit and Assurance

Risk Management – see paragraph 4.2

Legal Considerations – N/A

Financial Consequences – Revenue – N/A

Financial Consequences – Capital – N/A

Number of attachments included in the report: N/A

**BACKGROUND PAPERS:**

Papers previously presented to Audit Committee

- Internal Audit Plan 2019/20
- Internal Audit progress reports
- GMCA Corporate Risk Register

<b>TRACKING/PROCESS</b>		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
<b>EXEMPTION FROM CALL IN</b>		
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	

# Head of Internal Audit Opinion 2019/20

## 1. Introduction

The Head of Internal Audit is obliged, under the Public Sector Internal Audit Standards (PSIAS), to provide an annual report summarising the work undertaken by internal audit during the financial year and to provide an overall opinion of the adequacy and effectiveness of the organisation's framework of governance, risk management and internal control, derived from this work.

## 2. Scope

The Head of Internal Audit opinion is substantially derived from the results of the risk-based audits contained within the Internal Audit Plan for 2019/20. In addition the following are also considered:

- Grant Assurance work undertaken by Internal Audit;
- The implementation of previous audit actions;
- The results of work undertaken by other external sources;
- The quality and performance of the internal audit service and level of compliance with Public Sector Internal Audit Standards (PSIAS)

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to GMCA. The opinion is one component that is taken into consideration within the Annual Governance Statement.

## 3. Head of Internal Audit Opinion

### 3.1. Opinion

Based on the work undertaken by Internal Audit in respect of 2019/20 the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of GMCA's framework of governance, risk management and control is:

Opinion	Description	Rationale
<b>Limited (by volume)</b>	The work undertaken, combined with other sources of assurance, considered the arrangements for governance, risk management and control	Audit work undertaken was significantly less than anticipated in the agreed Internal Audit Plan. This was due to limited internal audit resource being available during the year whilst the in-house internal audit team was being established.  However, assurance can be taken from the internal audit work that was performed, of which:

	<p>provided a limited level of assurance.</p>	<ul style="list-style-type: none"> <li>• no individual assignment reports were rated as “No Assurance”</li> <li>• no critical risk findings were identified</li> <li>• work undertaken covered a range of the key risks within the organisation</li> <li>• any high risk rated findings were isolated to specific activities and were/are scheduled to be implemented in line with agreed timescales</li> </ul> <p>Assurance can also be taken from other external and internal sources of assurance, including HMICFRS, ICO and GMFRS second line assurance activities.</p>
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Details of the possible audit opinions is provided in Appendix A.

No issues which have been highlighted during the year which have particular relevance to the preparation of the Annual Governance Statement. There have been no instances of non-conformance with PSIAS.

**3.2. Risk Management**

There is a GMCA Governance and Risk Group with responsibility for quarterly review and update of the GMCA corporate risk register (CRR). There has been active engagement from key officers from senior management and leadership representing the breadth of GMCA activities.

The CRR contains both GMCA and GM Mayoral risks. GMP, TfGM and GMFRS risk management frameworks and risk registers continued to be owned by the Chief Constable, Chief Executive of TfGM and Chief Fire Officer respectively.

The Governance and Risk Group operated effectively during 2019/20 with quarterly updates of the risk register being provided to Audit Committee, with a full review of the CRR being undertaken by the Audit Committee in January 2020.

**3.3. Corporate Governance**

GMCA has in place a Code of Corporate Governance as part of its Constitution.

Internal audits consider not only on the control environment but also on governance and risk management arrangements where appropriate. No audit findings relating to governance were rated “major” or “critical” in 2019/20. Where issues are identified, Internal Audit will work with services to improve and develop processes that allow governance and risk management to further help achieve the overall objectives of the service.

The audit of ICT Strategy, Governance and Programme Management identified a number of areas of good practice as well as some areas for improvement, which were acknowledged at the time to be reflective of the relative immaturity of the organisation. Since that audit, progress has been made in implementing the actions agreed to address the findings.

Looking ahead, in addition to considerations in each audit of governance, Internal Audit will implement a programme of reviews within future plans, focusing specifically on corporate governance arrangements, considering each of the elements of the CIPFA Good Governance in the Public Sector framework.

### **3.4. Internal Control**

From the audit work undertaken in the year there were no issues identified that indicated systemic non-adherence to internal controls in place. The majority of the audit findings related to control design as opposed to the operation of controls.

Symptomatic of the fact that the GMCA as an organisation is still relatively new and is the product of the amalgamation of a number of previous organisations/bodies (notably GMCA and GMFRS) there were audit findings identified in relation to the availability of single, clearly defined, organisation-wide policies for things such as expenses and car mileage claims as opposed to historic GMFRS policies for example. The audits found that controls were in place over these activities but they were based on either legacy processes or good practice and custom. Internal audit will continue to monitor progress with the development and implementation of GMCA-wide policies and procedures.

### **3.5. Impact of Covid-19 on the Head of Internal Audit Opinion**

This opinion is based predominantly on work undertaken before the COVID-19 pandemic. The introduction of lockdown measures was late March 2020 which was at the end of the 2019/20 financial year. There was therefore limited impact on the 2019/20 internal audit plan.

There will be considerable impact on the plan for 2020/21, Internal Audit is working with management and the Audit Committee to manage that given the changes in risk and working arrangements.

## **4. Basis of the Opinion**

### **4.1. Internal Audit work performed**

The Internal Audit Plan for 2019/20 was presented to and approved by the Audit Committee in April 2019. The plan contained 512 days of audit work, taking into consideration the move from an outsourced Internal Audit function, provided by Manchester City Council, to an in-house Internal Audit team.

A new Head of Audit and Assurance was appointed in April 2019 who then was required to establish and recruit the Internal Audit team. The time required to establish and recruit the team

meant only 222 internal audit days being delivered (compared to 256 in 2018/19). **Whilst the audit work performed did not identify any significant issues in the areas of governance, risk management and control, this shortfall in days has impacted the ability to provide anything other than a Limited opinion.**

A summary of the internal audit reports issued in 2019/20 is provided here:

Audit	Assurance Level
Procurement Waiver Exemptions	Moderate
Employee Expenses	Moderate
ICT Strategy, Governance and Programme Management	Moderate
Adult Education Budget – Payment Controls	Substantial <sup>1</sup>
Car User and Mileage Expenses	Moderate
GM Troubled Families Programme	Positive
Housing Investment Loan Fund (HILF)	Reasonable <sup>1 2</sup>
GM Waste and Recycling Contract – Contract Governance	Reasonable <sup>1 2</sup>

<sup>1</sup>A new audit opinion rating mechanism is being introduced in 2020/21. The AEB Payment Controls, HILF and Waste audits also adopted this rating mechanism. Descriptions of the old and new audit engagement opinion ratings are included in Appendix B.

<sup>2</sup>Report is currently in draft stage.

### Analysis of 2019/20 audit findings and audit opinions

A similar number of audits were undertaken in 2019/20 as had been undertaken in 2018/19. A comparison of the two years audit results has been undertaken and shows the following:

- a) Fewer audit findings were raised in 2019/20. A total of 26 audit findings were raised, compared to 32 in 2018/19.
- b) A similar pattern can be seen in the distribution of finding ratings across the two years, although 2019/20 showed a less pronounced volume of “Significant” findings. See Fig 1.

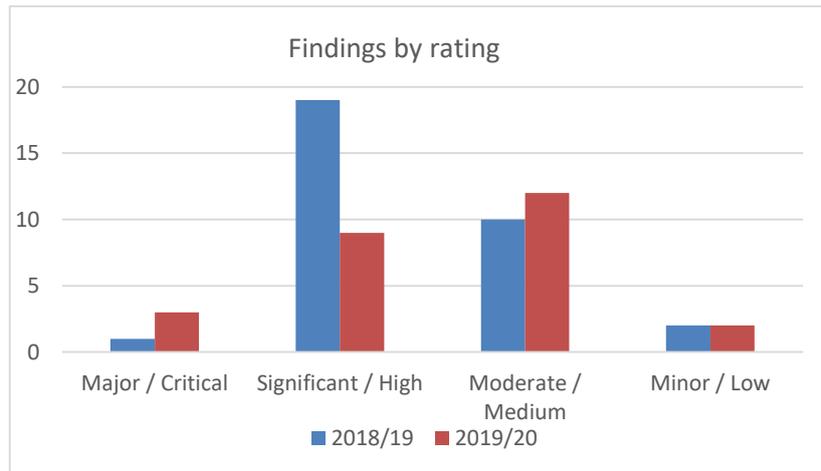


Fig 1. Analysis of audit findings by rating

- c) With regards to audit opinions for each year, aligning as best as possible the old and new opinion ratings, across the two years the distribution of report opinion ratings showed a greater proportion of “Substantial” audit opinions in 2019/20, and no Limited Assurance opinions being issued in 2019/20. See Fig 2.

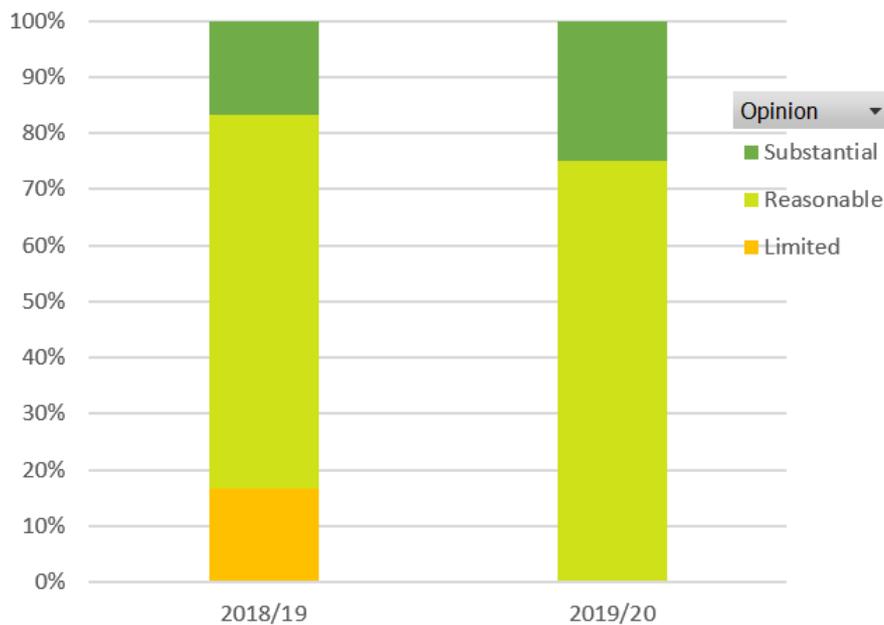


Fig 2. Analysis of audit opinions issued

## 4.2. Grant certification work

A Summary of the grant certification work undertaken in 2019/20 is provided below:

Grant	Amount certified	Assurance level
Business Energy and Industrial Strategy (BEIS) Grant Certification	£513k	Positive
National Productivity Investment Fund (NPIF) 2018/19 Grant Certification	£3.3m	Positive
GM Energy Market Mandatory Grant Certification	£31k	Positive
Local Growth Fund 2018/19 Grant Certification*	£78m	Positive

\*Certification not yet issued but work has been undertaken and is being finalised. Assurance levels will be reported as indicated here.

## 4.3. Implementation of audit actions

As part of PSIAS, we are required to consider the appropriateness of the organisation's response to the implementation of audit recommendations. In 2019/20 the responsibility for reporting on the status of implemented or outstanding actions is a management responsibility with quarterly reports provided to Audit Committee.

At the time of writing, management has reported that 72% of audit recommendations are either implemented or partially implemented.

Moving into 2020/21 Internal Audit will assume more responsibility for monitoring and validating progress with agreed actions. Target implementation rates for audit actions will be set and performance regularly reported to SLT and Audit Committee. Particular attention will be paid to actions agreed to address critical and high risk rated audit findings.

## 4.4. Effectiveness of Internal Audit during the period

An assessment of the effectiveness of the Internal Audit Function has been undertaken by the Head of Audit and Assurance. That assessment concluded that whilst the extent of Internal Audit work has been limited in 2019/20 due to the establishment of the team, **the work that was performed was in conformance with PSIAS.**

A Quality Assurance and Improvement Programme has been implemented within the Internal Audit Team for 2020/21 which will assist in the monitoring and evaluation of the effectiveness of the team moving forwards

## 4.5. Other Sources of Assurance

### 4.5.1. Information Commissioner's Office (ICO)

With the support of the Association of Police and Crime Commissioners (APCC), the ICO Assurance department has undertaken a project to gain a more in depth understanding of working practices and data protection concerns within PCCs. GMCA took part in this project. The focus was mainly on the data processing undertaken by the PCC part of the GMCA but the recommendations in the report could be applied where appropriate, across the whole of the organisation. The review considered:

- Information Governance & Accountability – How organisations are able to demonstrate their responsibility and compliance with the GDPR/DPA18 principles
- Data Sharing - How routine and one off disclosures to other organisations are managed
- Security – How electronic and manual personal data is kept secure
- Records management – How records containing personal data are processed including their creation, maintenance, and eventual destruction
- Requests for personal data – How individuals' requests for copies of their personal data are handled

Some areas of good practice were noted in the report as well as a number of recommendations for improvement. Given the Head of Internal Audit's role as a member of the Information Governance Board it is possible to report progress has been made in a number of these recommendations, whilst it is acknowledged that further activities need to take place. This report does however provide some independent assurance over the steps taken to minimise data protection risks.

### 4.5.2. GMFRS - HMICFRS Inspections

Under section 28B of the Fire and Rescue Services Act 2004, Her Majesty's Chief Inspector of Fire & Rescue Services (HMICFRS) reports on the state of the fire and rescue sector, annually. The FRS inspections principally focus on the service provided to the public. They assess how well FRSs prevent, protect against and respond to fires and other emergencies, and how well they look after the people who work for the service.

GMFRS was last inspected by HMICFRS in Tranche 2 of the 2018/19 inspection programme with the final inspection report received in June 2019. Overall the Service was graded as **'Requires Improvement'** against the, Effectiveness Efficiency and People Pillars, but graded as **'Good'** at *Understanding the risk of fire and other emergencies and responding to fires and other emergencies, and Making the fire and rescue service affordable now and in the future.*

The report highlighted several areas for improvement, with recommendations, where the Service should take actions to address. The report also identified 19 'Areas for Improvement', two 'Causes of Concern' and four 'Recommendations'.

An external action plan to address the four recommendations was developed and is updated on a regular basis and published on the GMFRS website on the 'About Us' page. A further internal action plan was developed to address the Areas for Improvement and Causes of Concern. This is monitored and progress reported by the Operational Assurance Team.

Internal Audit obtained the latest version of the action plans to assess progress made in addressing the findings of the inspection. In regards to the four Recommendations in the external action plan, progress had been made against all of the actions to December 2019. Progress had also been made in the activities within the internal action plan, with 67% of the 124 actions either having been completed or in progress as at April 2020.

The pandemic has, however, slowed progress on implementing actions and in the last quarter of the year GMFRS has focussed on activities around responding to the pandemic to ensure service delivery was maintained. This has placed on hold some of the business as usual activity including HMICFRS Improvement Action Plans. However, the recovery strategy will incorporate resuming the plans and throughout the period has maintained contact with HMICFRS Service Liaison (SLL) and is actively working on an engagement plan to ensure continued communication with the SLL throughout the period. Internal Audit will continue to monitor implementation of these actions.

#### **4.5.3. GMFRS - Operational Assurance Activity**

Greater Manchester Fire and Rescue Service (GMFRS) maintain an Operational Assurance (OA) team to undertake active and reactive monitoring across a range of operationally focused activities. The OA Team are supported by an extended team of Area based Officers to deliver a wide range of operational assurance activities.

The OA Team adopt a 'risk based' approach for providing operational assurance and progressing the resultant outcomes, in order to assure stakeholders that:

- a) The Service has a safe, well-trained and competent workforce capable of meeting the demands placed upon them
- b) The Emergency Response element of the Service is effectively working to achieve the strategic purpose and aims of the Integrated Risk Management Plan
- c) A continuous improvement culture is supported through operational learnings

This "second line" assurance is a valuable source of assurance for GMFRS over operational activities. The 2019/20 annual outturn report was obtained and reviewed by Internal Audit. It details the scope and results of the OA work undertaken during the year and provides another source of assurance.

Internal Audit are working with the OA team to develop a longer term process to document and record the assurance provided across the "lines of defence" with OA work being a key element of that assurance map.

## Appendix 1 – Annual Opinion Types

The table below sets out the four types of annual opinion that the Head of Internal Audit considers, along with an indication of the characteristics for each type of opinion. The Head of Internal Audit will apply judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Opinion	Description	Indicators
Substantial	The controls tested are being consistently applied. There is a sound system of internal control designed to achieve the system objectives.	<ul style="list-style-type: none"> <li>• No individual assignment reports were rated as “No Assurance”</li> <li>• No critical or major findings were identified</li> <li>• A limited number of moderate and minor rated findings were identified within the audit work undertaken.</li> <li>• Management demonstrate good progress in the implementation of previous audit actions</li> </ul>
Moderate	There is evidence that the level of noncompliance with some of the controls may put some of the system objectives at risk. While there is a basically sound system of internal control, there are weaknesses, which put some of the system objectives at risk.	<ul style="list-style-type: none"> <li>• The number of internal audit reports rated as “Limited Assurance” is small in comparison to those rated as “Moderate”, “Positive” or “Full” Assurance</li> <li>• No critical risk rated findings were identified in the audit work undertaken</li> <li>• Any major risk rated findings were isolated to specific activities and were implemented in line with agreed timescales</li> <li>• Moderate risk rated findings do not indicate a systemic or pervasive weakness in governance, risk management or internal control</li> <li>• Management demonstrate reasonable progress in the implementation of previous audit actions.</li> </ul>
Limited	a) <u>Limited by volume</u>	<ul style="list-style-type: none"> <li>• No individual assignment reports were rated as “No Assurance”</li> <li>• No critical risk findings were identified</li> </ul>

	<p>Internal Audit undertook a limited number of reviews. The work undertaken combined with other sources of assurance considered the arrangements for governance, risk management and control over a number of key corporate risks.</p>	<ul style="list-style-type: none"> <li>• Work undertaken covered a range of the key risks within the organisation</li> <li>• Any major or significant risk rated findings were isolated to specific activities and were implemented in line with agreed timescales</li> </ul>
	<p>b) <u>Limited by results</u></p> <p>Weaknesses in the system of internal controls are such as to put the system objectives at risk</p> <p>and/or</p> <p>The level of non-compliance with controls puts the systems objectives at risk.</p>	<ul style="list-style-type: none"> <li>• The number of internal audit reports rated as “Limited” or “No Assurance” outweighs those rated as “Moderate”, “Positive” or “Full”.</li> <li>• Critical and Major Risk findings were identified in the audit work undertaken</li> <li>• No more than two critical risk findings were identified and they were in relation to specific activities as opposed to indicating systemic failures and were rectified quickly.</li> <li>• Management do not demonstrate good performance in implementing audit actions.</li> </ul>
No Assurance	<p>The control environment is generally weak, leaving the system open to significant error or abuse and/or</p> <p>Significant non-compliance with basic controls leaves the system open to error or abuse.</p>	<ul style="list-style-type: none"> <li>• Audit reports are generally rated as Limited or No assurance.</li> <li>• Findings rated Critical, Major, Significant outweigh those rated as Moderate or Minor.</li> <li>• Audit findings indicate systemic non-adherence to control procedures, indicating a poor control environment.</li> <li>• Audit actions are consistently not implemented in line with agreed timescales.</li> </ul>

## Appendix B

Below are the assurance levels and finding ratings used for the majority of the 2019/20 internal audit work. They are historically based on the Manchester City Council Internal Audit rating mechanism given MCC provided internal audit services to Q2 2019/20.

Level of assurance	Description
<b>Full</b> ●	<b>Full assurance</b> – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
<b>Positive</b> ●	<b>Positive assurance</b> – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system’s overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment.
<b>Moderate</b> ●	<b>Moderate assurance</b> – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
<b>Limited</b> ●	<b>Limited assurance</b> – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
<b>No</b> ●	<b>No assurance</b> – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Below are the assurance levels that will be used for the 2020/21 internal audit work. These were used for the AEB, Waste and HILF reports in 2019/20. These opinion ratings have been defined for the GMCA Internal Audit team moving forwards and are consistent with the recommended definitions for engagement opinions published by CIPFA in April 2020.

	<b>DESCRIPTION</b>	<b>DESCRIPTION</b>
	<b>SUBSTANTIAL ASSURANCE</b>	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.
	<b>REASONABLE ASSURANCE</b>	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.
	<b>LIMITED ASSURANCE</b>	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.
	<b>NO ASSURANCE</b>	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.