

## **GMCA AUDIT COMMITTEE**

**Date:** 22 April 2022  
**Subject:** Internal Audit Effectiveness  
**Report of:** Steve Wilson, Treasurer

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### **PURPOSE OF REPORT**

As the Officer responsible for the effective functioning of the Internal Audit Team, the Treasurer must be satisfied that the Internal Audit Service is operating effectively.

The Head of Audit and Assurance conducts an annual review of the effectiveness of its system of internal audit as part of its governance assurance processes and presents this to the Treasurer and Audit Committee. 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 2021/22 and actions proposed to ensure ongoing effectiveness and quality of the GMCA Internal Audit service.

### **RECOMMENDATIONS:**

Members are requested to note the report.

### **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

|  |                               |    |
|--|-------------------------------|----|
| <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? |                               | No |
| TfGMC  | Overview & Scrutiny Committee |    |
| N/A  | N/A                           |    |

**Annual Self-Assessment of Internal Audit Effectiveness**  
**Sarah Horseman, Head of Audit and Assurance**  
**March 2021**

**1. Introduction**

Internal Audit is one of the means by which 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.

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).

This report provides the assessment of the effectiveness of the GMCA Internal Audit service for 2021/22 and sets out the plans for monitoring and measuring effectiveness of the service going forwards.

**2. Assessment of Internal Audit Effectiveness for 2021/22**

The following attributes have been considered when assessing effectiveness of the Internal Audit service:

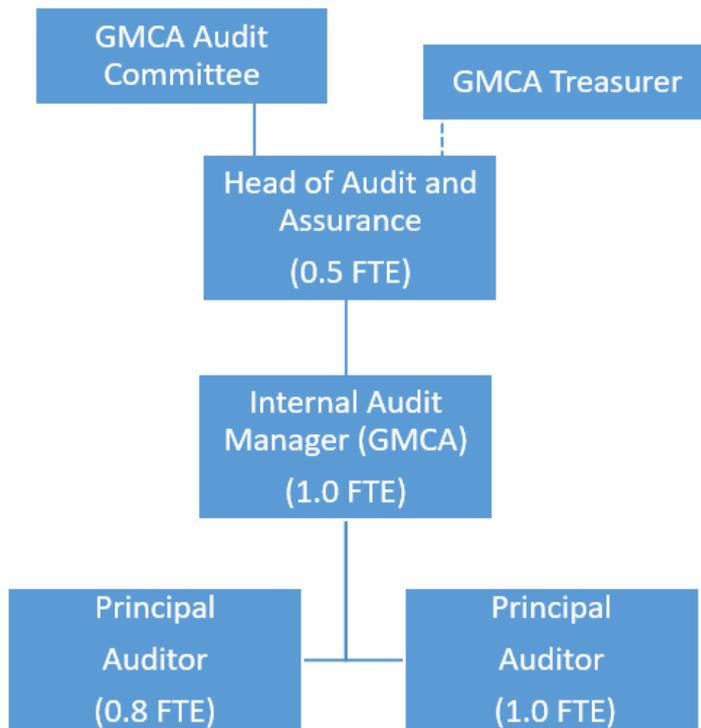
- Structure and resourcing
- The results of the External Quality Assessment (EQA) undertaken to assess conformance with the PSIAS in producing quality work.
- Delivering audit work in the most appropriate areas on a prioritised (risk) basis.
- Audit Committee reporting
- Implementation of Internal Audit recommendations

The conclusion of the assessment is that the work undertaken by internal audit in 2021/22 has been effective insofar that it has focused on key areas of risk and has been undertaken in line with PSIAS.

This conclusion has been derived from the following assessment:

### 3. Internal Audit Structure and Resourcing

The Structure of the Internal Audit service in 2021/22 is shown below:



The team has been fully resourced for the majority of the year, with a short period of vacancy during the recruitment of one of the Principal Auditors.

### 4. The extent of conformance with the PSIAS in producing quality work

An external assessment of compliance with PSIAS was undertaken in 2021/22. The conclusion of that work was that the Internal Audit Team conforms with PSIAS.

A number of recommendations were raised, progress with implementing those recommendations is shown below, with the detail of all the recommendations provided in Appendix 1.

## **5. The extent of conformance with the Internal Audit Quality Assurance and Improvement Plan**

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

### **Ongoing Reviews**

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

### **Periodic Reviews**

- Performance against Internal Audit KPIs is reported annually to the Audit Committee. New KPIs have been developed in 2021/22 that focus on outcomes as opposed to resource inputs. These will be reported on in full in 2022/23.
- Internal Audit regularly reports progress against the Internal Audit plan to SLT and Audit Committee
- Internal Audit undertake a formal risk assessment process annually to develop the Internal Audit Plan.
- The Head of Audit and Assurance undertakes an annual review of the effectiveness of Internal Audit, compliance with the QAIP and a self-assessment of compliance with PSIAS.
- Formal Performance Review process in place for the team where objectives and development activities are identified.
- Feedback on the effectiveness of Internal Audit and of the Head of Audit and Assurance requested from the Treasurer, Chief Executive and Audit Committee Chair.
- Any significant areas of non-compliance with the PSIAS that are identified through internal assessment will be reported in the Head of Audit Assurance's Annual Report and used to inform the Annual Governance Statement (AGS). No significance areas of non-compliance have been identified for 2021/22.

### **External Assessments**

An external quality assessment (EQA) was undertaken in 2021/22. Recommendations arising from the EQA are monitored and progress reported to the GMCA Audit Committee. Of the 24 actions agreed, at the time of writing this report 17 have been implemented, 5 are in progress, 1 has been carried forward into the 2022/23 development plan and one is not yet due.

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

The internal audit plan for 2021/22 was developed in early 2021 after undertaking a detailed risk assessment. Given the ongoing pandemic as well as the significant change programmes underway the plan was kept under review with changes being reported to Audit Committee as required.

## 7. Audit Committee reporting and KPIs

Internal Audit have provided progress updates to each 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 any significant changes to the audit plan.

Internal Audit have defined new Key Performance Indicators which were presented to Audit Committee in January 2022. The purpose of these is to focus on audit outcomes as opposed to what had been traditional, input focused KPIs. At the time of writing, whilst the Audit Sponsors for all audits for 21/22 had been reminded to provide feedback, only one survey has been received so the KPIs are based purely on that response. Whilst that response is very positive, it is acknowledged it may not be representative. An action is included in the 2022/23 Development Plan to work with directorates to improve the response rate of post-audit questionnaires.

| Activity                    | # | Performance Indicator                         | Target           | Apr 22 | Status | Comments  |
|-----------------------------|---|---|------------------|--------|--------|---|
| Delivery of audit plan      | 1 | Completion of audit plan                      | 100% by year end | 54%    |        | The forecast completion rate for the audits that were in the original 2021/22 plan is 78%. Since the original plan was approved, three audits have been deferred and one has been added as well as reactive whistleblowing investigations being undertaken. |
|                             | 2 | Elapsed time of audits                        | <3 months        | 33%    |        | An action has been included in the Development plan to improve on this in 22/23.  |
| Audit action implementation | 3 | Quality of agreed audit actions               | 90%              | 100%   |        |   |
|                             | 4 | Audit actions implemented (rolling 12 months) | 85%              | 75%    |        | As at the time of compiling the KPIs – awaiting updates on a small number of actions which could slightly improve the actual rate.  |

|                                     |   |                             |     |      |  |  |
|-------------------------------------|---|-----------------------------|-----|------|--|--|
| <b>Audit action implementation</b>  | 5 | Historic open audit actions | 0   | 2    |  | <ul style="list-style-type: none"> <li>• VAT reclamation process (Low risk)</li> <li>• Reporting on programme performance (Medium risk)</li> </ul> |
| <b>Internal Audit Effectiveness</b> | 6 | Audit process               | 80% | 100% |  |  |
|                                     | 7 | Customer satisfaction       | 80% | 100% |  |  |

### 8. Implementation of Internal Audit recommendations

Internal Audit monitor the implementation of audit actions and report results to the Audit Committee on a quarterly basis.

Processes have been strengthened in 2021/22 through the requirement for Officers responsible for actions that are overdue by more than 6 months to present the reasons for the delayed implementation to Audit Committee.

Internal Audit will continue to monitor and report on the progress of audit actions.

### 9. Looking ahead – Internal Audit Development Plan 2022/23

The Head of Audit and Assurance has developed an Internal Audit Development Plan (Appendix 2) which identifies areas for improvement, based on this assessment of Internal Audit Effectiveness. The plan will be monitored throughout the year and progress reported to the Audit Committee.

The Internal Audit Development Plan will work in conjunction with the Quality Assurance and Improvement Plan (QAIP) which is designed to provide reasonable assurance to stakeholders that Internal Audit:

- Performs its work in line with the Internal Audit Charter (approved annually by the Audit Committee). The charter incorporates the definition of internal auditing as set out in PSIAS.
- Operates in an effective and efficient manner
- Is perceived by stakeholders as adding value to GMCA

**Internal Audit EQA Recommendation Tracking**

| PSIAS Ref | Rec No. | Action Required  | Responsible                 | Action   | Target date | Status                                   |
|-----------|---------|--|-----------------------------|--|-------------|--|
| 1130      | 1       | In future, assurance arrangements over which the Head of Audit and Assurance also has operational responsibility should be overseen by somebody outside of the internal audit activity. This could be done via a peer review arrangement (NWCAE group members have undertaken these in the past) or external provider. | Head of Audit and Assurance | Assurance over risk management arrangements will be overseen by a party outside of the internal audit function. Consideration will be given to establishing arrangements for peer review from another local or combined authority. No assurance work over risk management is in the scope of the Audit Plan for 2021/22 so these arrangements will be sought to be effective for 2022/23 and beyond. | 30/04/2022  | Noted for future action when appropriate |
| 1210      | 2       | Consideration should be given to the development of counter fraud arrangements including buying in external resource, specific counter fraud training, or joint reviews.   | Head of Audit and Assurance | Agreement with another Local Authority to be able to enter into call off agreement if additional fraud support is required.  | 31/12/2021  | Complete                                 |
| 1220      | 3       | The Internal Audit Manual should be updated to include reference to internal auditors considering and documenting the cost of assurance in relation to potential benefits when undertaking consulting engagements.   | Head of Audit and Assurance | Audit Manual will be updated in line with the recommendation.  | 31/12/2021  | Complete                                 |
| 1300      | 4       | The QAIP should be reviewed on an annual basis and presented to the Audit & Governance Committee.  | Head of Audit and Assurance | Complete – Review date of QAIP changed to April 2022   | 30/09/2021  | Complete                                 |

| PSIAS Ref | Rec No. | Action Required  | Responsible                 | Action  | Target date                        | Status   |
|-----------|---------|--|-----------------------------|---|------------------------------------|--|
| 1311      | 5       | Future performance targets should be developed in consultation with appropriate parties and included in any future service level agreement developed.  | Head of Audit and Assurance | New outcome focussed KPIs to be developed and approved by Audit Committee.  | 31/12/2021                         | Complete   |
| 1311      | 6       | As a minimum a formal annual update on performance should be presented to the Audit Committee, with regular updates on a quarterly basis.  | Internal Audit Manager      | a) Once new KPIs have been agreed (as per 5 above) they will be reported to Audit Committee as part of the regular progress update reports – From December 2021.                                    | 31/12/2021<br>Extended to March 22 | Complete   |
|           |         | As a minimum a formal annual update on performance should be presented to the Audit Committee, with regular updates on a quarterly basis.  | Internal Audit Manager      | b) Annual review of performance in line with KPIs presented as part of the annual review of effectiveness of Internal Audit. Target Date – April 2022.  | 30/04/2022                         | Complete   |
| 2010      | 7       | A formal assurance framework should be developed in consultation with relevant stakeholders.   | Head of Audit and Assurance | Develop and document Assurance framework for GMCA, in line with the “three lines” model   | 31/12/2021                         | In progress - Included in 2022/23 work programme |
| 2050      | 8       | An assurance mapping exercise should be undertaken to identify and determine the extent to which the Head of Audit and Assurance can place reliance on other sources of assurance. An exercise is currently being undertaken with the NWCAE group to develop this area around assurance mapping so we would advise tapping into this group to gain | Internal Audit Manager      | After the development of the Assurance Framework (7) an assurance mapping exercise will be undertaken. This can be used to inform HoIA opinion for 21/22 as well as the planning process for 22/23. | 31/03/2022                         | In progress- included in 2022/23 work programme  |

| PSIAS Ref | Rec No. | Action Required   | Responsible                 | Action  | Target date | Status   |
|-----------|---------|---|-----------------------------|---|-------------|----------|
|           |         | areas of best practice that can be used in the future.  |                             |   |             |          |
| 2120      | 9       | In order to manage fraud risk more effectively, a risk assessment of fraud risks should be undertaken as part of the annual planning process. This will help determine whether resources are needed to provide assurance in any given high-risk fraud area (for example via completion of proactive counter fraud reviews). | Head of Audit and Assurance | Fraud risks will be considered in the annual planning process for 2022/23   | 31/03/2022  | Complete |
| 2210      | 10      | The results of any risk assessments of individual activity should be highlighted in the scoping document. The results of the assessment should feed through to the objectives.  | Internal Audit Manager      | We will review the planning document templates and incorporate a risk assessment section to ensure that it is clearly documented. | 31/12/2021  | Complete |

| PSIAS Ref | Rec No. | Action Required   | Responsible                  | Action  | Target date                        | Status  |
|-----------|---------|---|------------------------------|---|------------------------------------|---|
| 2210      | 11      | Guidance should be provided to internal auditors in order to ensure that internal auditors use criteria established by management to evaluate governance, risk and control, whether met or inadequate, and formally documented as part of the scoping exercise. This should also form part of management review of auditor documentation. | Head of Audit and Assurance  | Audit manual to be updated to include reference to specifying what criteria are being audited against. If criteria don't already exist then guidance around how to develop them will be included. | 31/12/2021                         | Complete                                      |
| 2330      | 12      | The Head of Audit and Assurance should develop and implement a process for the retention of engagement records. This document should be reviewed on a regular basis.  | Head of Audit and Assurance  | Document retention policy will be drafted in consultation with relevant stakeholders including IG and Legal.  | 31/12/2021<br>Revised to 30/6/2022 | In progress, drafted and in review by IG team |
| 2340      | 13      | Internal audit procedures should be updated to include the requirement for a consistent approach around highlighting and evidencing supervisory review of working papers.   | Internal Audit Manager       | A practical and efficient way to consistently evidence review will be determined and included in the IA manual for immediate implementation.  | 31/12/2021                         | Complete                                      |
| 2         | 14      | In order to formally demonstrate that Internal Auditors display objectivity whilst performing services in accordance with the PSIAS, a reference should be made to this in every Internal Audit report produced.  | Head of Audit and Assurance  | Complete: Report template for 2021/22 has been updated to include reference to conformance with PSIAS.  | 30/09/2021                         | Complete                                      |
| 1000      | 15      | The Counter Fraud Strategy and Policy should be reviewed and published on the website.  | Head of Audit and Assurance, | Counter fraud activities are built into the audit plan for 21/22. The policies will be  | 31/03/2022                         | In progress – Policies and Strategy           |

| PSIAS Ref | Rec No. | Action Required   | Responsible   | Action   | Target date | Status  |
|-----------|---------|---|---|--|-------------|---|
|           |         |   | Internal Audit Manager                              | reviewed, refreshed, approved by Audit Committee and published   |             | to April Audit Committee. For future publishing |
| 1100      | 16      | A formal process should be introduced to ensure that threats to objectivity are identified and managed at engagement level by highlighting this in the Audit Charter and scoping documentation. | Head of Audit and Assurance                         | a) Section 9.7 of IA Charter has been updated to reflect engagement level objectivity will be confirmed and documented at the planning stage. Complete - July 2021.                    | 31/07/2021  | Complete  |
|           |         |   | Internal Audit Manager                              | b) Template planning documents will be updated to allow for objectivity to be confirmed at that stage within each engagement. December 2021.   | 31/12/2021  | Complete  |
| 1130      | 17      | A process for the rotation of audit assignments should be introduced and documented within the Internal Audit Charter.  | Head of Audit and Assurance                         | a) Section 9.7 of IA Charter has been updated to refer to rotation of duties. Complete - July 2021.  | 31/07/2021  | Complete  |
|           |         |   | Internal Audit Manager                              | b) IA manager will wherever possible ensure rotation of auditor responsibilities within the audit plan.  | Ongoing     | Complete  |
| 1210      | 18      | The use of data analytical tools should be explored and introduced, with relevant training provided.  | Head of Audit and Assurance                         | In line with the action from Recommendation 2 above. Data analytics skills will also be considered for development within the team and budget requested as necessary.                  | 30/04/2022  | c/f to 2022/23 development plan                 |
| 1230      | 19      | A formal process to individually assess internal auditors against pre-determined skills and competencies should be introduced and highlighted in the Audit Manual.                              | Head of Audit and Assurance, Internal Audit Manager | The PRA process at GMCA will be used to assess performance. By its nature this will assess how auditors are performing against their objectives. IA Manual will be updated to reflect. | 31/12/2021  | Complete  |

| PSIAS Ref | Rec No. | Action Required  | Responsible                 | Action  | Target date | Status      |
|-----------|---------|--|-----------------------------|---|-------------|-------------|
| 1300      | 20      | The Head of Audit and Assurance should formalise the period assessment for evaluating conformance with the PSIAS, such as highlighting the results in the Head of Audit and Assurance annual opinion.  | Head of Audit and Assurance | Complete – the 2020/21 audit opinion summarised the results of the internal audit effectiveness assessment which includes conformance with PSIAS and reference to the QAIP. | 30/06/2021  | Complete    |
| 2450      | 21      | In the annual report and opinion, the Head of Audit and Assurance should include reference to any scope limitations in the opinion, or if there were no scope limitations this should be clearly documented, and clearly identify which audits completed in the year formed part of the originally agreed internal audit plan. | Head of Audit and Assurance | Reference to whether there were any scope limitations will be included in the 2021/22 opinion   | 30/06/2022  | Not yet due |

**Internal Audit Development Plan 2022/23**

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

| <b>Ref</b> | <b>Action</b>   | <b>Source</b>                | <b>Responsibility</b> | <b>Measure</b>  |
|------------|---|------------------------------|-----------------------|---|
| 1          | Policies and Procedures: Keep IA processes and methodology under regular review and refresh as necessary based on current IA guidance, feedback from team and clients.  | EQA                          | HoAA                  | Evolving and improving audit methodology and supporting documentation.      |
| 2          | Internal Audit Skills: Assess current skills of the team particularly in relation to data analytics, fraud and treasury management to ensure auditor skills are adequate and allow for development of the service.  | IA Effectiveness – resources | HoAA/ IA Manager      | Internal Audit Training and Development Plan                                |
| 3          | Apply the document retention policy   | EQA                          | Team                  | All audit documentation retained is in line with document retention policy. |
| 4          | Develop a more formal engagement plan with Directorates to ensure Internal Audit is kept up to date with current activities, priorities and risks   | IA Effectiveness Review      | HoAA / IA Manager     | IA Engagement Activities  |
| 5          | Work to increase response rates to post audit questionnaires and identify other sources of feedback to inform the new internal audit KPIs which are outcome focused as opposed to input based. The quality and meaningfulness of the new KPIs is largely dependent on feedback received from audit “customers”. | IA Effectiveness Review      | HoAA / IA Manager     | Quantity of feedback received that informs audit KPIs.                      |
| 6          | Work with Audit Sponsors to reduce the elapsed time of audit work (time between fieldwork commencement and report issue) to be < 3 months.  | IA Effectiveness Review      | HoAA / IA Manager     | Improvement in KPI for 22/23  |