

GMCA Audit Committee

Date: 15 March 2023
Subject: Internal Audit Effectiveness
Report of: Steve Wilson, Treasurer

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 Deputy Director, 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 2022/23 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:

Steve Wilson, GMCA Treasurer
Steve.wilson@greatermanchester-ca.gov.uk

Sarah Horseman, Deputy Director, Audit and Assurance
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

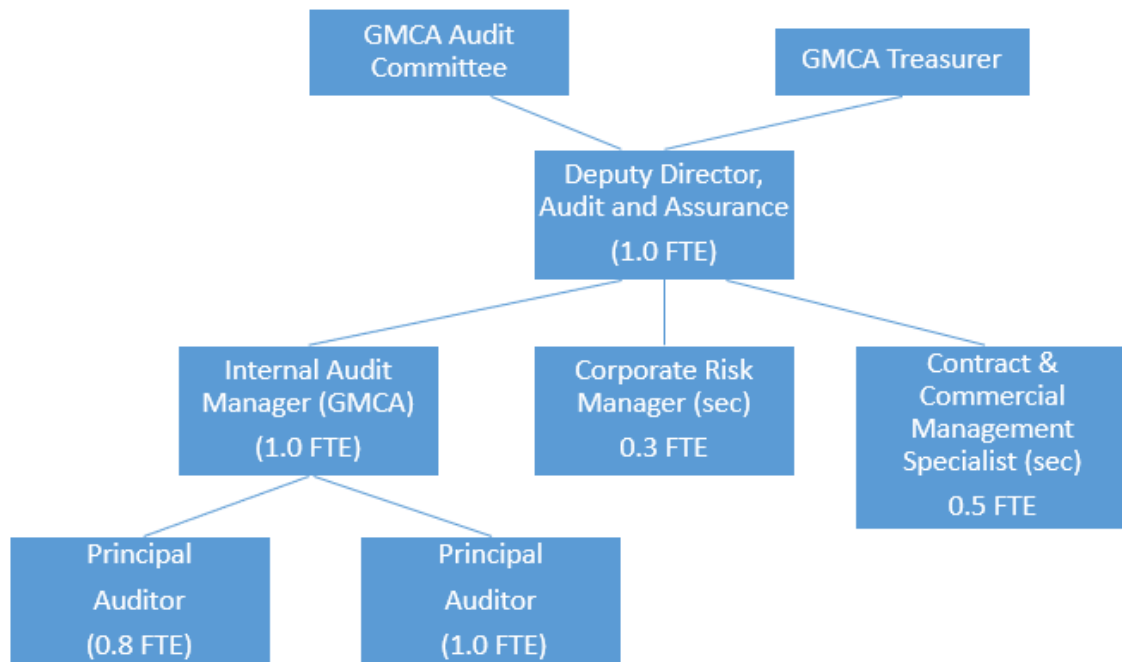
- 1.1 Internal Audit is one of the means by which GMCA assesses the adequacy and effectiveness of its governance and risk management arrangements, ensuring that an effective internal control system is in place. It is a key source of independent assurance to management and those charged with governance and its work helps inform the Annual Governance Statement
- 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 2021/22 and sets out the plans for monitoring and measuring effectiveness of the service going forwards.

2. Assessment of Internal Audit Effectiveness for 2022/23

- 2.1 The following attributes have been considered when assessing effectiveness of the Internal Audit service:
 - Structure and resourcing.
 - Progress on implementing the recommendations arising from the External Quality Assessment (EQA) undertaken in 2021-22 that assessed conformance with PSIAS.
 - 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 2022/23 has been effective insofar that it has focused on key areas of risk and has been undertaken in line with PSIAS. Details of the assessment for each of these attributes is provided below in Sections 3-9

3. Internal Audit Structure and Resourcing

3.1 The Structure of the Internal Audit service in 2022/23 is shown below:



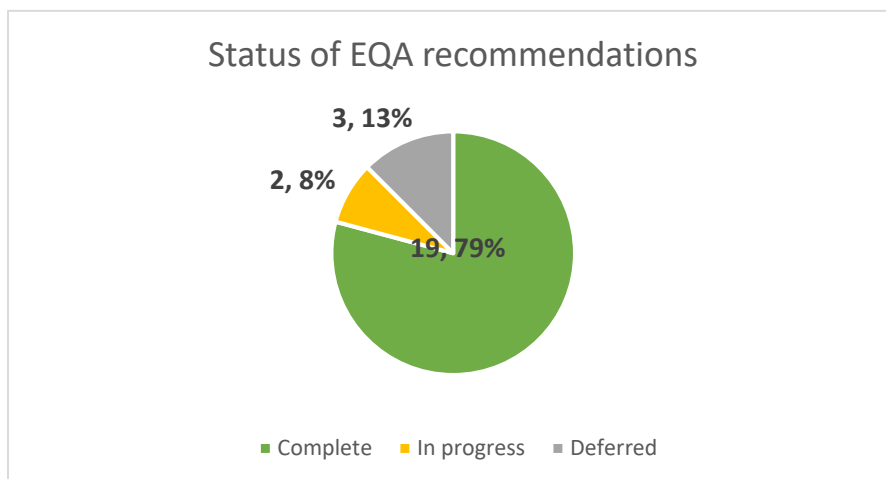
3.2 The Internal Audit team of 2.8 FTE are dedicated to delivering the GMCA Internal Audit Service and also have responsibility for Counter Fraud arrangements within GMCA. The size of the team is small and the plan has no capacity for “contingency” days to allow for ad-hoc work (for example response to whistleblowing reports) to be undertaken without impacting another part of the plan.

3.3 A review of the resource levels within the Internal Audit Team is required and will be influenced by any changes brought about by the outcome of the devolution trailblazer.

3.4 The “second line assurance” roles of the Corporate Risk Manager and Contract & Commercial Management Specialist, both seconded from TfGM also report to the Deputy Director, Audit and Assurance and provide “2nd line” assurance to GMCA.

3. The Extent of Conformance with the PSIAS in Producing Quality Work

- 4.1 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.
- 4.2 A number of recommendations were raised, progress with implementing those recommendations in 2022/23 is shown below, with the detail of all the recommendations provided in Appendix 1.
- 4.3 A small number of recommendations have been deferred, due to capacity constraints. These relate to the development of an assurance mapping framework and its subsequent maintenance. CIPFA is due to issue guidance on assurance mapping in 2023, which will be used to help shape the framework. The other recommendation relates to the introduction of data analytics in the audit plan. This is likely to incur some degree of investment in tools and training and will be considered as a development opportunity for member(s) of the team if sufficient budget is available.
- 4.4 The two in-progress recommendations relate to the development and implementation of a fraud risk strategy and the implementation of the records retention policy. As the Audit team was only established in 2019, audit records do not extend back a significant period of time but the policy will be applied as appropriate.



4. The extent of conformance with the Internal Audit Quality Assurance and Improvement Plan

5.1 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:

5.1.2 Ongoing Reviews

- All engagements are appropriately supervised. Weekly team meetings 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 Deputy Director, Audit and Assurance review all draft reports before they are issued.
- The Deputy Director, 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.

5.1.3 Periodic Reviews

- Performance against Internal Audit KPIs is reported annually to the Audit Committee. New KPIs were developed in 2021/22 and have been reported against 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 Deputy Director, 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 Deputy Director, 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 Deputy Director, Audit Assurance's Annual Report and used to inform the Annual Governance Statement (AGS). No significance areas of non-compliance have been identified for 2022/23.

5.1.4 External Assessments

An external quality assessment (EQA) was undertaken in 2021/22. Recommendations arising from the EQA have been monitored in 2022/23 and progress regularly reported to the GMCA Audit Committee. See Section 4 above.

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

6.1 The internal audit plan for 2022/23 was developed in early 2022 after undertaking a detailed risk assessment. The plan was kept under review with changes being reported to Audit Committee as required.

6. Audit Committee reporting

7.1 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.

7.2 Key Performance Indicators are presented to Audit Committee on a regular basis. The purpose of these is to focus on audit outcomes as opposed to what had been traditional, input focused KPIs. There is an ongoing challenge however in collecting feedback from audit clients as responses to the client survey are rarely received. This makes it challenging to report on a number of the indicators. An action will be included in the Internal Audit Development Plan to review the method of collecting feedback in 23/24.

7.3 Other KPIs include:

- Completion of the Audit Plan – at the time of writing, 47% of the audits (including grants) in the plan had been completed (final reports or certifications issued) with a further 33% in progress. The forecast completion rate for the audits that were in the original 2022/23 plan is 80%. Five of the six audits not yet started are proposed to be rolled forward into Q1 2023/24 with one (Investigation Processes) to be considered for inclusion later in the year.
- Elapsed time – the aim of this KPIs is that audits do not span more than 3 months from the commencement of fieldwork to reporting. For the audits completed in the 2022/23 audit plan, the achievement of this KPI is 71% of audits achieving this. This is a significant improvement on the prior year, but will maintain a continued focus in 23/24.

7. Implementation of Internal Audit Recommendations

- 8.1 Internal Audit monitor the implementation of audit actions and report results to the Audit Committee on a quarterly basis. Officers responsible for actions that are overdue by more than 6 months are required to present the reasons for the delayed implementation to Audit Committee.
- 8.2 Internal Audit will continue to monitor and report on the progress of audit actions.

8. Looking Ahead – Internal Audit Development Plan 2023/24

- 9.1 The Deputy Director, 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.
- 9.2 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.

10 Recommendations

- 10.1 The recommendations are set out at the front of the report.

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 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	Deferred – resource limited
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 areas of best practice that can be used in the future.	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	Deferred – resource limited

PSIAS Ref	Rec No.	Action Required	Responsible	Action	Target date	Status
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 but further development required to formalise and embed.
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
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	Head of Audit and Assurance	Document retention policy will be drafted in consultation with relevant stakeholders including IG and Legal.	31/12/2021 Revised to 30/6/2022	Policy exists. Will require ongoing application

PSIAS Ref	Rec No.	Action Required	Responsible	Action	Target date	Status
		document should be reviewed on a regular basis.				over time as records age.
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, Internal Audit Manager	Counter fraud activities are built into the audit plan for 21/22. The policies will be reviewed, refreshed, approved by Audit Committee and published	31/03/2022	Complete
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

PSIAS Ref	Rec No.	Action Required	Responsible	Action	Target date	Status
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 2023/24 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
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

PSIAS Ref	Rec No.	Action Required	Responsible	Action	Target date	Status
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	Complete

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.

Ref	Action	Source	Responsibility	Measure	Status
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.	This is an ongoing activity. Introduced a new report template in 2022/23 to simplify and make reports more impactful.
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	Ongoing activity undertaken in line with PRA activities.
3	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	Quarterly meetings with Directors now in place. Close this action for 23/24 as it is now established.
4	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.	Responses to online surveys are still low. In 23/24 feedback will be sought through the quarterly update meetings with Directors.

5	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	Still requires improvement
6	Formalise and embed counter fraud awareness and arrangements	IA Effectiveness Review	HoAA / IA Manager	Roll out of counter fraud training to the organisation and embedded fraud risk management procedures.	Ongoing activity. Refreshed policies published in 22/23, fraud awareness training to be introduced in 23/24.