

GMCA Audit Committee

Date: 31 July 2024

Subject: Internal Audit Effectiveness

Report of: Steve Wilson, GMCA 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 2023/24 and actions proposed to ensure ongoing effectiveness and quality of the GMCA Internal Audit service.

RECOMMENDATIONS:

Members are requested to note the report.

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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	
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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

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 2023/24 and sets out the plans for monitoring and measuring effectiveness of the service going forwards.

2. Assessment of Internal Audit Effectiveness for 2023/24

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

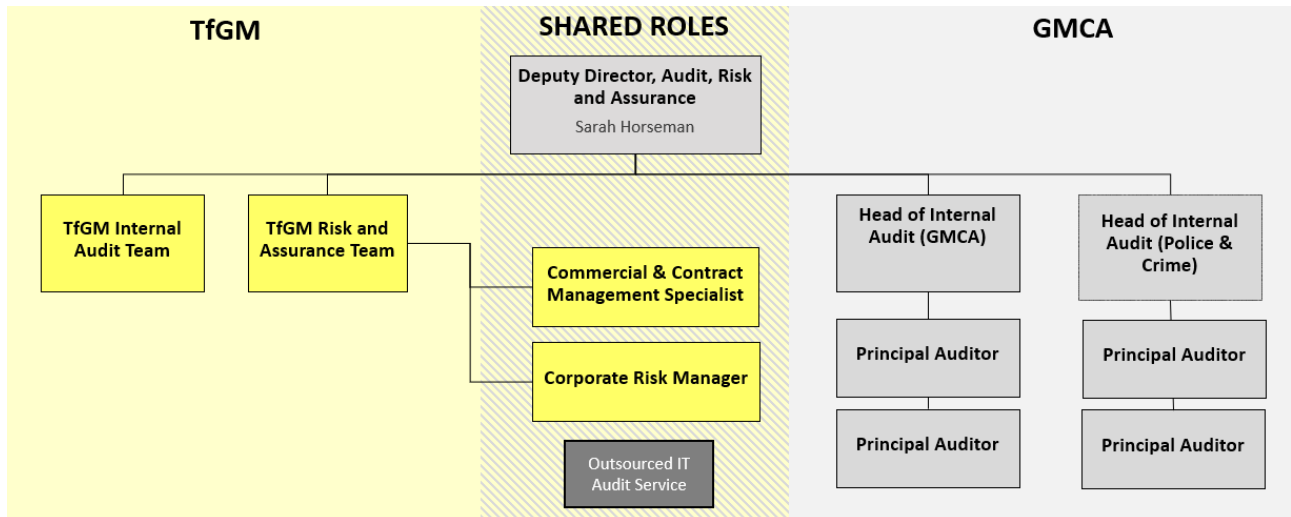
- Structure and resourcing
- Progress on implementing the any recommendations in the Internal Audit Development Plan
- Delivering audit work in the most appropriate areas on a prioritised (risk) basis
- Audit Committee reporting
- Implementation of Internal Audit recommendations

The conclusion of the assessment is that the work undertaken by internal audit in 2023/24 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

The Structure of the Internal Audit service in 2023/24 is shown below:



The GMCA 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 in 23/24 had no capacity for “contingency” days to allow for ad-hoc work (for example response to whistleblowing or fraud reports) to be undertaken without impacting another part of the plan. A business case to increase in resources in progress with a view to recruiting in the summer of 2024. This will be kept under review as GMCA continues to grow in size and complexity.

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.

IT Audit services are provided by an external provider, Mersey Internal Audit Agency (MIAA).

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. The majority of the recommendations from that review were implemented in 2022/23.

There remain a small number of recommendations that continue to be developed, these include:

- Development of an assurance map – this work is ongoing as part of the GMCA Next Phase programme, in preparation for the Single Settlement.
- Introduction of data and analytics – the team does not currently routinely use analytics techniques. This will continue to be considered alongside resource requirements to develop the skills and tools required.
- There is some counter fraud activity undertaken by the Head of Internal Audit, but increasing resources will allow more time to be spent on proactive counter fraud risk management.

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:

5.1 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 Head of Internal Audit reviews the working papers for all engagements
- The Head of Internal Audit and Deputy Director, Audit and Assurance review all draft reports before they are issued.
- The Head of Internal Audit 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

5.2 Periodic Reviews

- Performance against Internal Audit KPIs is reported annually to the Audit Committee.
- 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 2023/24.

5.3 External Assessments

An external quality assessment (EQA) was undertaken in 2021/22, which rated the service as compliant overall. The next EQA will be due in 2026/27, after the implementation of the new Global Internal Audit Standards.

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

The internal audit plan for 2023/24 was developed in early 2023 after undertaking a detailed risk assessment. The plan was kept under review with changes being reported to Audit Committee as required.

7. Audit Committee reporting

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 a number of KPIs that are intended to monitor the performance and quality of the service provided. 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.

Other KPIs include

- Completion of the Audit Plan – at the time of writing, 10 (62.5%) of the in the plan had been completed (final reports or certifications issued), with a further 4 (25%) in progress. The forecast completion rate for the audits that were in the agreed plan is 87.5%. Towards the end of the year, some activities (Net Zero Audit, Anti-money laundering policy and fraud response plan) were put on hold whilst the Head of Internal Audit undertook a whistleblowing investigation. This impacted the delivery of the plan.
- 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 2023/24 audit plan, the achievement of this KPI is 69% (which rises to 75% one week after the three month threshold). This will remain an area to monitor in 2024/25.

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. Officers responsible for high priority actions that are overdue are required 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 2024/25

The Deputy Director, Audit and Assurance has developed an Internal Audit Development Plan (Appendix 1) 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 Development Plan 2024/25

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

Action	Source	Responsibility / Commentary	Responsible
IIA Standards Gap Analysis	Global IIA	New Global IIA Standards have been issued and will be required to be implemented in April 2025. We are awaiting guidance from CIPFA as to the application of the new standards in the UK public sector. Our IA Methodology, processes and templates will require review and update to ensure they are in line with the new Standards.	Deputy Director of Audit and Assurance supported by Heads of Internal Audit
Update the Internal Audit Methodology in line with new Standards.			
Review and update Internal Audit Charter and QAIP			
Keep resources under review	Audit Committee	With increasing breadth and of GMCA activities, it is important that there are sufficient internal audit resources to provide assurance work that will support the internal audit opinion as well as to support activities such as counter-fraud, whistleblowing and the GMCA Next Phase programme.	Deputy Director, Audit and Assurance supported by the Treasurer and Audit Committee.