GMCA Audit Committee

12 June 2018

Review of Effectiveness of Internal Audit

| Report Of | Treasurer to the Greater Manchester Combined Authority 
|           | Head of Audit and Risk Management |
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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 GMCA Treasurer, and Audit Committee in particular over the system of internal audit including the role, function and performance of the internal audit service.

This report sets out the key findings and actions proposed to further develop the effectiveness of internal audit in 2018/19.

RECOMMENDATION
Audit Committee is requested to consider the level of assurance provided by the review of effectiveness and actions to be taken to address risks in 2018/19.

PRIORITY
This report is produced to support the GMCA Treasurer and Audit Committee in assessing the effectiveness of the internal audit and the GMCA systems of governance, risk management and internal control.

BACKGROUND DOCUMENTS
Internal Audit Plan 2018/19 (Audit Committee)
Internal Audit Annual Assurance Opinion and Outturn Report 2017/18 (Audit Committee)
GM Corporate Risk Register (Audit Committee)

**RISKS/IMPLICATIONS**

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<thead>
<tr>
<th>Category</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Financial:</td>
<td>Cost of Internal Audit Services within GMCA budget.</td>
</tr>
<tr>
<td>Staffing:</td>
<td>No impact</td>
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<tr>
<td>Policy:</td>
<td>No impact</td>
</tr>
<tr>
<td>Equal Opportunities - Has a Diversity Impact Assessment been conducted?</td>
<td>No</td>
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**TRACKING/PROCESS**

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<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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<tr>
<td>Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board</td>
<td>No</td>
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**EXEMPTION FROM CALL IN**

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<th>Question</th>
<th>Answer</th>
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<tr>
<td>Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?</td>
<td>No</td>
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<tr>
<th>AGMA Commission</th>
<th>TfGMC</th>
<th>Scrutiny Pool</th>
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<td>N/A</td>
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1 Introduction and Background

1.1 Internal Audit is one of the means by which the GM 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 Members and its work helps inform the Annual Governance Statement.

1.2 The key strategic context in 2017/18 was the integration of other bodies into the GMCA and the transition of new powers and duties arising from the consolidation of the GM Fire and Rescue Authority, GM Police and Crime Commissioner's Office ("GMPCC"), New Economy and other functions during April and May 2017. The transition of the GM Waste Disposal Authority functions into GMCA took place in April 2018 and other funding programmes will continue to be devolved from Central Government during 2018/19.

1.3 The Internal Audit Service for the GM Combined Authority and Mayoral functions is led by the Head of Internal Audit and Risk Management for Manchester City Council under a collaboration arrangement which includes Bolton Council. The Internal Audit Service for GMCA is predominantly provided by Manchester audit staff, and from 8 May 2017. The service was strengthened by three former Police and Crime Commissioner’s Office audit staff now employed by the GMCA who focus on police and crime audit work and report direct to the Head of Internal and Risk Management.

2 Service Delivery 2017/18

2.1 As noted in the Internal Audit Annual Assurance Opinion and Outturn Report reported to Audit Committee in April 2018, the original GMCA annual audit plan outlined 275 days of Internal Audit support for 2017/18 across GMCA core functions and 150 days for GMFRS. Actual time charged was 170 and some planned work was deferred to 2018/19. As noted in the report the actual days spent on audit work had fallen far short of the original allocations and limited the overall audit coverage on which the annual opinion is based.

2.2 The actual work performed was delivered by experienced, qualified staff but the scale of delivery was clearly the main challenge and this is a key priority to resolve for 2018/19 as set out below.

3 Public Sector Internal Audit Standards

3.1 The Public Sector Internal Audit Standards (PSIAS) came into force from 1 April 2017 and apply the Institute of Internal Auditors (IIA) International Standards to the UK public sector. The objectives of the PSIAS are to;

- Define the nature of Internal Auditing within the Public Sector
- Set basic principles for carrying out Internal Audit
- Establish a framework for providing Internal Audit

3.2 One of the requirements of the PSIAS is for audit functions to be subject to periodic External Quality Assessments ("EQA"). The former GMPCC audit
team were subject to an EQA Peer Review prior to transfer to the GMCA. This did not highlight any particular areas of concern.

3.3 Following an EQA completed in 2016/17 on the Manchester Internal Audit Service a series of actions were agreed that also incorporated changes requested by the Manchester Audit Committee in respect of recommendation monitoring, classification of audit risks/priorities and formats for reporting to Audit Committee. An EQA assessment was completed on the Bolton Internal Audit Service in 2017/18 that identified some areas for further development.

3.4 The feedback from these three EQAs, management feedback, Audit Committee feedback and a ‘lean’ review of audit process has resulted in a service development programme which is being applied consistently across Bolton, Manchester and GMCA audit functions.

4 Service Development Programme

4.1 The service development programme includes a common audit approach which is intended to raise standards; drive further efficiency; and ensure consistency of approach under a shared Head of Audit and Risk Management.

4.2 The programme has resulted in a fundamental, common review of all aspects of the audit process and has covered:

- Vision and Strategy
- Audit Ethics, Quality Assurance and Standards
- Audit and Assurance Mapping
- Annual Audit Planning
- Assignment Planning and Preparation
- Fieldwork
- Assignment Reporting and Closure
- Stakeholder Reporting
- Recommendations and Action Follow Up
- Performance and Metrics Reporting

4.3 The result will be a common audit manual, a consistent set of standards, principles, processes, working papers and updated reporting formats to meet the assurance requirements of officers, senior management, Audit Committee and other key stakeholders. This will address all of the points raised in the EQAs and resulting from management and Audit Committee feedback.

4.4 The key changes expected from this development programme remain:

- A single set of simple quality and performance standards for onward reporting to the GMCA Treasurer and Audit Committee.
- Development of assurance summaries for senior officers and SMT to support their assessment of sources of assurance, guide improvement actions and help inform internal audit planning.
• Refinement of the annual audit planning process, to ensure effective engagement of key stakeholders and ensure timely approval of the annual audit plan.

• Refinement of the overall audit approach, to minimise elapsed time on audits and further enhance the efficiency of audit teams as well as enhancing and standardising quality assurance requirements.

• New reporting formats, both for audit assignments and for key stakeholders.

• Simplification of language and opinions used in reports to further aid understandings and transparency of audit reporting.

• Agreed areas and approach to develop collaborative working in key risk areas such as counter fraud; information governance and ICT; and procurement, commissioning and contracts.

4.5 This programme has engaged all staff across the audit teams and a revised, proposed, consolidated audit approach will be shared back with all teams in June 2018.

5 Service Structure

5.1 Alongside this an initial review of service structures has been undertaken and proposals shared with the Treasurers of the three authorities and in outline with all staff. This engagement has included officers working in risk management, business continuity and insurance where the three authorities also work together to share staff resources.

5.2 This process has taken longer than planned and it is acknowledged that this has had a detrimental impact on the resourcing position across all teams. Recruitment to vacant posts has been delayed pending completion of the structure review and this has impacted particularly on resources available to deliver the GMCA and GMFRS audit plans in 2017/18.

5.3 A final report for agreement with the three Treasurers will be completed in June. This is an essential part of the process as the proposals for future structures include the creation of new posts to be shared across the three authorities, a commitment to shared specialist audit functions (such as ICT, Information Governance, Counter Fraud, Contracts and Procurement) and a more fluid deployment of staff to better align skills and capacity to areas of audit need. There have been initial benefits of this approach in work around counter fraud; health and social care and information governance; but a step change in structures is required to further realise the benefits of collaboration.

5.4 As part of this final report, the GMCA Treasurer will be presented with two options: to secure audit services through this collaborative approach; or create a standalone GMCA audit service. Once agreed this will enable the next steps to be progressed which include: developing clear role profiles and grades for posts across the three teams, formally consulting staff and stakeholders; confirming recruitment approach and timescales; and implementation. This process is expected to take up to nine months.
6 Conclusion

6.1 Whilst work undertaken by the internal audit service in 2017/18 has been in accordance with PSIAS and expected quality standards, the scale of delivery fell far short of agreed allocations. This presents a risk to the GMCA in obtaining appropriate, robust levels of independent assurance over systems of governance, risk management and internal control.

6.2 The key actions to address this risk in 2018/19 are as follows:

• **June:** Finalisation of recruitment to three fixed term senior auditor positions in Manchester City Council to support delivery of the GMCA and Manchester City Council audit plans. Intention for appointments to be made in July /August 2018.

• **June:** Support from the GMCA Police and Crime audit team to deliver some GMCA (non Police and Crime) audit work pending approval of the police audit plan.

• **June:** Completion of common audit approach for consistent application across GMCA, Manchester and Bolton audit teams to enable cross organisational working. This will be ongoing into July to refine based on staff feedback and agreement of systems for the recording, reporting and retention of audit working papers and files.

• **June** Final report to GMCA, Manchester and Bolton Treasurers confirming planned collaborative structure and timeline for staff consultation, appointments and recruitment. For the GMCA Treasurer this will also include an option for a standalone audit service for the GMCA, GMFRS and Police and Crime audit functions.

• **July:** Development of role profiles, role descriptors and process for collaborative audit and risk management approach across the three employers (GMCA, Manchester City Council, Bolton Council).

• **August / September:** Consultation with staff and recruitment underway for proposed senior audit and risk management roles to support Head of Audit and Risk Management in delivery and development of collaborative approach across GMCA, Manchester and Bolton.

• **October:** Finalisation of consultation arrangements.

• **November:** Commence process of appointment / recruitment to posts.

7 Recommendations

7.1 Audit Committee are requested to consider the level of assurance provided by the review of effectiveness and management actions to address resourcing risks for 2018/19.