GMCA Audit Committee
16 April 2019

Review of Effectiveness of Internal Audit

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<th>Report Of</th>
<th>Treasurer to the Greater Manchester Combined Authority</th>
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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 2019/20.

**RECOMMENDATION**
Audit Committee is requested to consider the level of assurance provided by the review of effectiveness and actions proposed for 2019/20.

**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, Internal Audit Annual Assurance Opinion and Outturn Report 2018/19 and Corporate Risk Register (All reported to Audit Committee)
RISKS/IMPLICATIONS

Financial: Cost of Internal Audit Services within GMCA budget.
Staffing: No impact
Policy: No impact
Equal Opportunities – Has a Diversity Impact Assessment been conducted? No

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<th>TRACKING/PROCESS</th>
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<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>
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<th>EXEMPTION FROM CALL IN</th>
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<th>AGMA Commission</th>
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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 those charged with governance and its work helps inform the Annual Governance Statement.

1.2 The Internal Audit Service for the GM Combined Authority and Mayoral functions in 2018/19 was led by the Head of 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 three GMCA employed audit staff who focus on largely on police and crime audit work and report direct to the Head of Internal and Risk Management.

1.3 As reported to Audit Committee in January 2019, a planned review and options appraisal to determine a future structure for the audit collaboration across GMCA, Manchester and Bolton was completed in 2018. These proposals were based on agreement at that time to move forward with a development of the existing approach to service provision. However, in December 2018 following further discussions with Transport for Greater Manchester (TfGM), GMCA confirmed its intention to move away from the existing arrangement, appoint a shared GMCA/TfGM Head of Audit and Assurance and create its own Audit and Assurance structure from 2019/20. This proposal was shared with Audit Committee and agreed by Senior Management Team and GMCA Resources Committee.

1.4 Time taken to finalise this decision has impacted on the development of the service and the consequent delivery of planned audit work. The establishment of required posts and recruitment to these across all three organisations was placed on hold pending the outcome of the review and whilst some realignment of staff has taken place and interim agency appointments were made in year, Internal Audit were unable to secure suitable, sustainable staffing appointments to fully deliver the audit plan. To support a smooth transition to the new arrangements some support will be provided in quarter one and this will include completion of work deferred from 2018/19.

2 Service Delivery 2018/19

2.1 As noted in the Internal Audit Annual Assurance Opinion and Outturn Report to Audit Committee, the original GMCA annual audit plan outlined 555 days of Internal Audit support across GMCA core functions including 140 days for GMFRS. Actual time spent in 2018/19 was 259 days.

2.2 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 was based. The reasons for reduction in days were reported to Audit Committee in January 2019 and relate to:
• Time taken to finalise and agree proposals for the future strategy for GMCA internal audit provision; and the consequent delays in recruiting to positions across the three authorities comprising the GMCA Manchester and Bolton collaboration.

• Planned changes in the service provision for audit and risk management from 2019/20 including closer alignment with TfGM means that some development work such as counter fraud and risk management training and awareness were curtailed to enable a more integrated approach to be taken with TfGM in 2019/20.

• The volume of challenge and assurance work undertaken by management in respect of GMFRS as part of Programme for Change and in preparation for the HMICFRS inspection means that planned work in this area would add little value so Internal Audit proposed summary of areas of key assurances for reporting to Audit Committee.

• Reduction in capacity impacting delivery due to inability to secure sustainable agency support to audit. Some reallocation of resources was undertaken with additional support from Manchester in quarter four but did result in proposals to cancel or defer work.

2.3 As a consequence of the non-completion of work in 2018/19 the Annual Assurance Opinion and Outturn report proposed that a number of areas including Working Well, GM Digital and Housing and Planning are carried forward for completion in the first quarter of 2019/20. This approach is reflected in an indicative annual audit plan through which Manchester City Council will provide a modest level of support in the first quarter to maintain a level of audit coverage and support the transition to new service under the new GMCA/TfGM Head of Audit Assurance from May 2019.

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 The Manchester City Council Internal Audit Service was subject to EQA in 2017 and the results of this and other identified areas for development are reflected in an annual effectiveness review and service Quality Assurance Improvement Programme that is to be reported to the Council’s Audit Committee on 15 April 2019.

3.4 In 2018 GMCA Audit Committee were advised of a development programme
that was underway to develop a common audit approach intended to raise standards; drive further efficiency; and ensure consistency of approach under a shared Head of Audit and Risk Management. There were a range of development activities in progress to be applied across GMCA, Manchester and Bolton from 2019/20, however given the GMCA/TfGM decision to establish a joint service this development work has not been applied to the GMCA as the need to develop an agreed approach across GMCA / TfGM will be the focus for 2019/20.

4 Transition 2019/20

4.1 The key focus for GMCA Internal Audit provision 2019/20 is to support an effective transition from the current collaboration with Manchester and Bolton to the service under the new GMCA/TfGM Head of Audit and Assurance.

4.2 The transition will be informed by and agreed with the new post holder but can reasonably be expected to include:

- Meetings with key stakeholders across the GMCA including the Audit Committee, TfGM Audit Committee and Joint Audit Panel (Police and Crime).
- Meetings with the current Head of Audit and Risk Management, Lead Auditor and Risk Manager (all from Manchester City Council) to share cumulative audit knowledge and experience.
- Sharing of audit plans, strategies and past audit reports.
- Sharing of relevant system and process descriptions, key documents and other relevant information.

4.3 Provision of c60 days of Manchester City Council support in quarter one 2019/20 to enable completion of audit work deferred from 2018/19 and support the new Head of Audit of Assurance.

5 Service Structure and Audit Plan Review

5.1 An indicative audit plan has been developed for approval by Senior Management Team and Audit Committee. This proposes areas for possible audit coverage but will require further review in year by the new Head of Audit and Assurance to assess deliverability within available resources and to ensure that the plan reflects her assessment of key risks and areas for coverage. The plan is therefore likely to change in year and Audit Committee will be updated and asked to approve changes in line with PSIAS.

5.2 An outline audit structure was developed as part of the options appraisal completed by the Head of Audit and Risk Management in 2018 and will form the basis for discussion and agreement of future staffing proposals with the new Head of Audit and Assurance in quarter one 2019/20. Assurance over the structure and subsequent proposals to secure resources for the delivery will be provided to Audit Committee during the year.
6 Conclusion
6.1 Whilst work undertaken by the Internal Audit Service in 2018/19 has been in accordance with PSIAS and expected quality standards, the scale of delivery fell short of agreed and expected allocations. There are a number of reasons for this as set out in the report and the key actions to address this risk in 2019/20 are as set out above. 2019/20 will be a year of transition to a new service structure and Audit Committee will be updated as this develops during the year.

7 Recommendations
7.1 Audit Committee are requested to consider the level of assurance provided by the review of effectiveness and actions proposed for 2019/20.