

**Manchester City Council
Report for Information**

Report to: Audit Committee - 20 March 2014
Subject: Emergent Internal Audit Plan 2014/15
Report of: City Treasurer / Head of Internal Audit and Risk Management

Summary

This report provides Members with details of the emergent Internal Audit Plan for 2014/15.

Recommendations

Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan which will be brought back for approval in July.

Wards Affected:

None

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Background documents (available for public inspection):

Internal Audit Plan 2013/14 (June 2013)
Internal Audit Quarterly Assurance Reports 2013/14
Corporate Risk Register (January 2014)

Internal Audit Emergent Internal Audit Plan 2014/15

1. Background to report

- 1.1. From April 2013 CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for internal audit and have been adopted by the service in Manchester.
- 1.2. The principles in the PSIAS affirm are consistent with the previous CIPFA Code for Internal Audit that applied across local government. They include the need for “risk based plans” to be developed for internal audit and for plans to receive input from management and the “board”. As in previous years this process includes the development of an emergent plan designed to invite comment from management and the Audit Committee.
- 1.3. The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2014/15 annual plan.

2. Basis for the Plan

- 2.1. The PSIAS (section 2000) state that the “Chief Audit Executive” must “establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisations goals” . They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management and “the board”. These principles have been applied in the development of the 2014/15 plan as follows:

A. Annual Internal Audit Opinion (PSIAS 2010)

- The Head of Internal Audit and Risk Management forms an annual assurance opinion based on an annual programme of audit work as set out in diagram one below as well as assurance obtained by other means. The current approach continues to six main types of audit as shown below. It is not considered cost effective or necessary to obtain audit coverage of all strategies, business units and risks so these are reviewed on a risk basis each year.
- In addition to audit, the Head of Internal Audit and Risk Management considers any issues identified through fraud and corruption or developing systems work insofar as they impact on the effective operation of governance, risk management or internal control within the Council.
- The service also provides advice and guidance to all services and partnerships where appropriate. This is an increasing area of focus give the amount of change ongoing across the Council and our partners. Time is also allocated to support developing systems and a range of emerging projects, ensuring early engagement and audit support across the Council.
- The Head of Internal Audit and Risk Management also seeks to place reliance on assurance mechanisms within the Council as well as the findings of other auditors and inspectors in reaching an annual opinion. This is a key area where development work is planned for 2014/15 to formalise risk and assurance mapping across the Council.

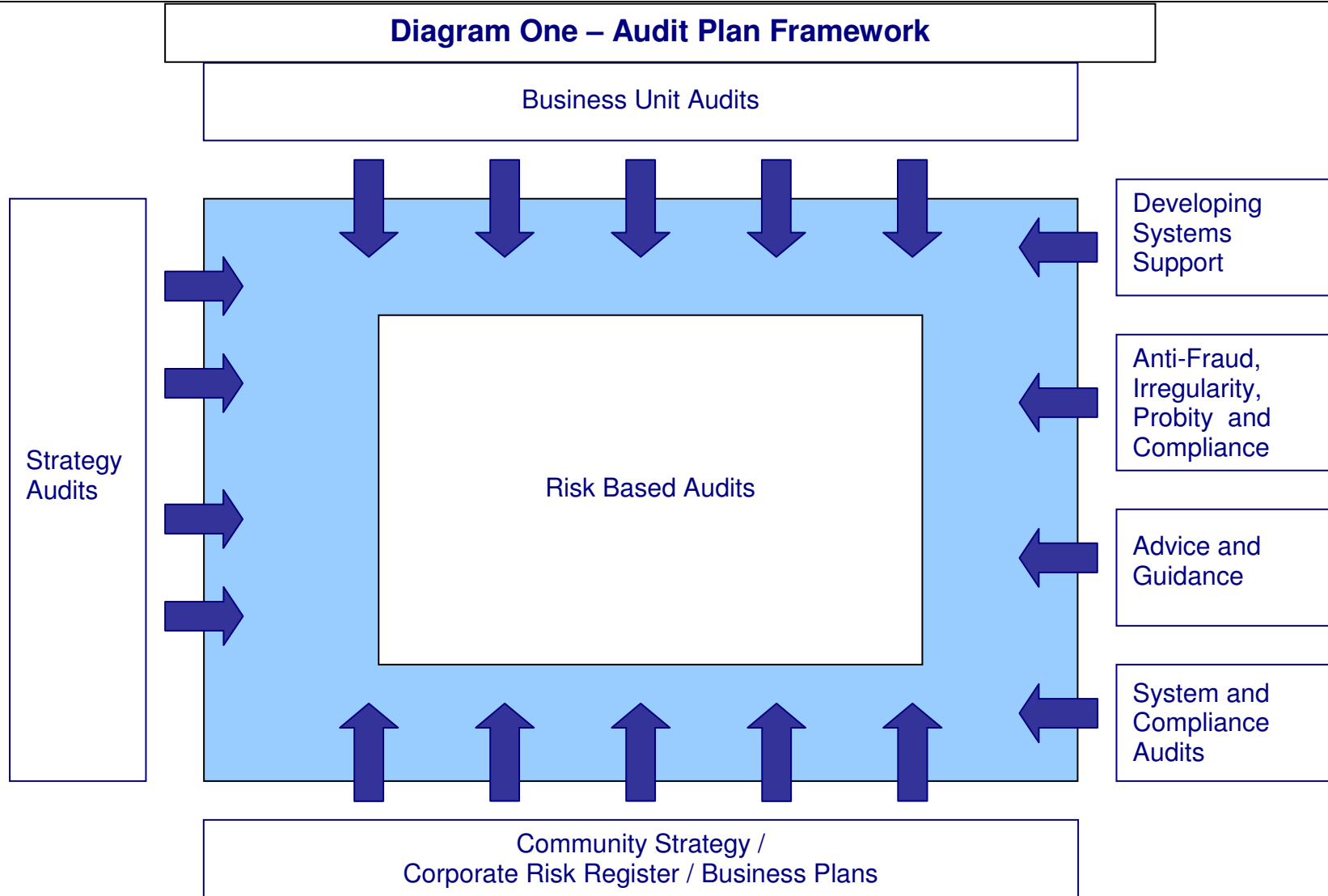
- The plan is flexible and is reviewed and adjusted throughout the year, as necessary, in response to changes in policies, systems, processes, risks and controls across the Council.

B. Based on a Risk Assessment (PSIAS 2010.A1)

- The Internal Audit Section work closely with the Council's Risk and Resilience Team under a single Head of Service. The Audit Manager liaises formally and informally with the Risk and Resilience Manager and Lead Auditors work with the Risk and Resilience Leads to share intelligence, information and issues of concern. Internal Audit also engages with Strategic Directors and Heads of Service, as well as colleagues across the Core in HR, performance, finance and ICT, to ensure that known and emerging unregistered risks from the corporate and service risk registers are considered in annual audit planning.
- Assignment audit planning considers key risks and the focus of audit work is tailored accordingly to ensure that local and national issues and risks are addressed.
- The Head of Internal Audit and Risk Management ensures a culture of risk awareness is maintained within the service so that all members of the team are aware of local, regional and national risks in the performance of their duties.
- Through regular liaison and the sharing of emergent plans with colleagues across the North West, Greater Manchester and the Core Cities, Internal Audit ensures that it is aware of emerging risks in other Council's and considers these as part of audit planning.

C. Informed by Expectations (PSIAS 2010.A2)

- The Internal Audit Service is aligned to service and directorate structures, ensuring teams engage positively with Strategic Directors and their teams.
- The annual plan is based on consultation and discussion with these directorate management teams and key officers to ensure it is focused on key risks, core systems and areas where Internal Audit can effectively contribute to the effectiveness and efficiency of governance, risk management and control processes.
- An emergent plan is produced to help ensure early engagement with Elected Members represented on the Council's Audit Committee.



3. Annual Planning

- 3.1. The approach to audit planning in the Council for 2014/15 has been based largely, but not exclusively, on the following:
- Review of the Corporate Risk Register.
 - Review of all Directorate Business Plans, savings proposals and related risk registers.
 - Review of the Community Strategy and other key strategy documents.
 - Cumulative audit knowledge and experience.
 - Findings and outcomes from audit and investigation work in 2013/14 and earlier years.
 - Engagement with Heads of Service and directorate management teams.
 - Engagement with audit colleagues across Greater Manchester and the Core Cities.
 - Engagement with the Risk & Resilience, Insurance & Claims and Health & Safety teams within the Audit and Risk Management Division.
- 3.2. On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This is currently being presented to directorate management teams for further comment, to ensure that the risks identified are consistent with their understanding and assessment.

4. Key Characteristics of the Annual Plan

Scale and Pace of Change

- 4.1. As was the case when developing previous Internal Audit Plans the Council is continuing to go through a period of continuous change as a result of the financial settlement. There has been a significant reduction in the workforce and this will continue over the coming year. Substantial transformational changes are taking place in the design, commissioning and delivery of services, with substantial, ongoing activity to deliver huge savings across all areas of the business. The implementation of changes and public service reform, with a reduced workforce whilst delivering business as usual and achieving key priorities remains a key challenge for the Council during 2014/15 and must be reflected in the Internal Audit plan.
- 4.2. The Internal Audit plan must continue to be sufficiently **flexible** to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. This is particularly relevant for 2014/15 as high level proposals for change and transformation are being agreed with more detailed work ongoing to confirm how these will be delivered. As such there are areas where Internal Audit work cannot be fully defined at this stage but where allocations of resource are required to help support good governance, risk management and control. For example, there is a need for assurance in areas such as commissioning and contracts; risk and assurance

mapping; public sector reform; and information governance. Whilst Internal Audit will add value and provide assurance in these areas the detailed areas for focus are the subject of ongoing discussion with the business. Rather than define specific audits and then change them, the plan includes blocks of work which will be applied to specific aspects of audit activity throughout the year. There will be similar block allocations in other areas with details of specific audit activities reported to Strategic Directors, Heads of Service and Audit Committee throughout the year.

- 4.3. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The significant reduction in the workforce for example provides opportunity for a breakdown in control as well as an opportunity to consider new, more efficient ways of organising people, systems and processes without impacting adversely on internal control. To reflect this risk the plan will continue to allocate time for advice and guidance and developing systems support to officers to **support** and **challenge** them in the establishment and development of their systems of governance, risk management and internal control. We will also deliver work on the core financial systems and a number of proactive anti-fraud, irregularity and probity audits to provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.
- 4.4. The continued pace of change across the Council requires assurance that is **prioritised** and **timely**. The Internal Audit plan must provide for this assurance, to enable remedial actions or controls to be implemented on a timely basis. Based on experience and feedback from Directorate Management Teams there is a continued need for shorter, more focused and practical audits in areas of emerging risk. The scope of these will likely be narrower than a full system or risk based audit, but will provide assurance over the management of specific risks.
- 4.5. These characteristics of the plan: flexible, supportive, challenging, prioritised and timely are not new. It remains critical that these principles are maintained if Internal Audit is to help the Council to continue to respond effectively to the scale of change during 2014/15 and beyond.
- 4.6. Based on the above the Head of Internal Audit and Risk Management considers that assurance is best obtained through a combination of different audits and other sources of assurance. This is not an uncommon approach but has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of the 2013/14 plan.

Plan Structure

- 4.7. There are a number of different types of audit activity in the plan.
- 4.8. Strategy: To provide an assurance opinion on the Council's strategic approach to the management of core business processes. Past examples include the Information, People and Financial Management Strategies. For 2014/15 the key strategy we will focus on relates to ongoing property rationalisation and

premises closures although we will remain abreast of the financial and ICT strategies in particular.

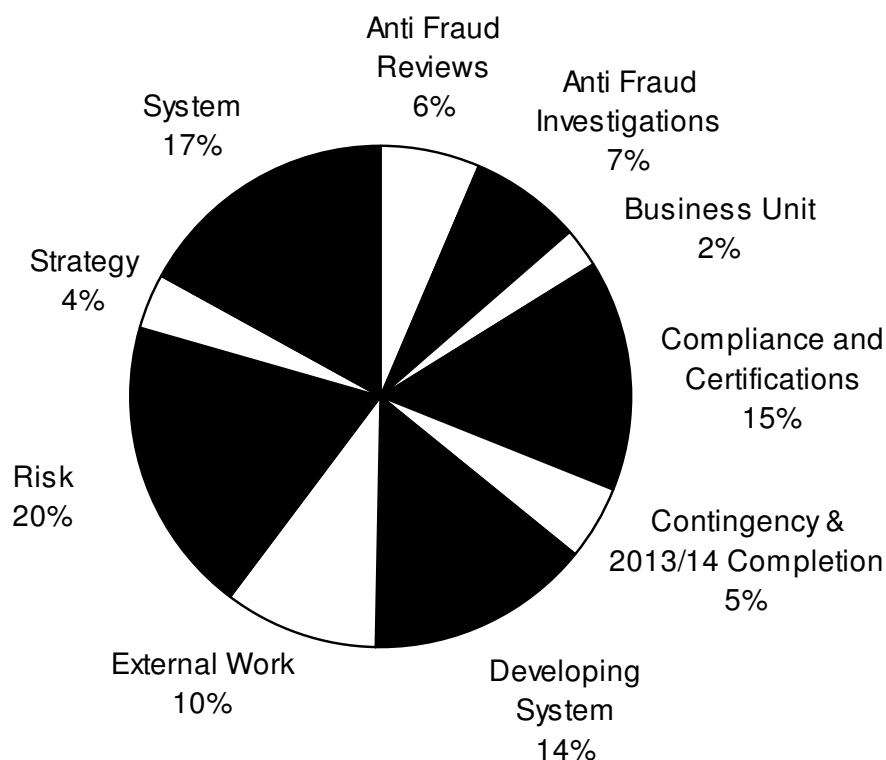
- 4.9. Business Unit: To provide an assurance opinion on the adequacy and effectiveness of arrangements to ensure the achievement of business plan objectives, specifically through the management of finance, people, performance and risk.
- 4.10. Risk Based: To provide assurance on the arrangements in place to manage key business risks. These are the audits that focus on risks in service and directorate plans and the corporate risk register and are designed to provide management and members with assurance that appropriate steps are being taken.
- 4.11. System and Compliance: To provide assurance to statutory officers and key stakeholders that key systems and processes are operating as intended. This remains critically important during a period of change and will include work on the core financial systems.
- 4.12. Anti Fraud, Irregularity and Probity Programme: There will be ongoing proactive testing of systems and processes to identify potential fraud and misappropriation, as well as potential non-compliance with policies and procedures. In addition the service investigates potential wrongdoing, fraud and corruption.
- 4.13. Schools: The time in the plan is based on the assumption that there is an ongoing requirement for assurance over governance and financial management in schools, to support Governing Bodies, the Local Authority and allow the City Treasurer to discharge his statutory obligations. This allocation includes cross cutting audits of thematic risk areas across a sample of schools with a proposed focus on information governance and funding.
- 4.14. Developing Systems: To provide early engagement on the development of new systems or processes and make recommendations to mitigate risks where appropriate. This applies across the implementation of a wide range of new structures and processes resulting from transformation and savings activity.
- 4.15. Advice and Guidance: Internal Audit provides ongoing advice across the Council. Whether through attendance at working groups or responding to telephone enquiries this remains an area where early advice and support can help maintain a robust control environment. It is likely to be an area of further increased demand as managers at all levels will require support.
- 4.16. Contingency: an allocation of time has been retained to enable Internal Audit to respond to emerging risks in the year.
- 4.17. This approach of using different types of audits and other work is considered the most effective way to deliver the vision for Internal Audit.

5. Plan Content

- 5.1. In summary, there is a high level of focus proposed this year on risk based audits and providing assurance over core systems. This reflects the need to focus on the management of emerging risks and to ensure the continued

operation of controls within the Council's overall governance arrangements, its systems and its processes.

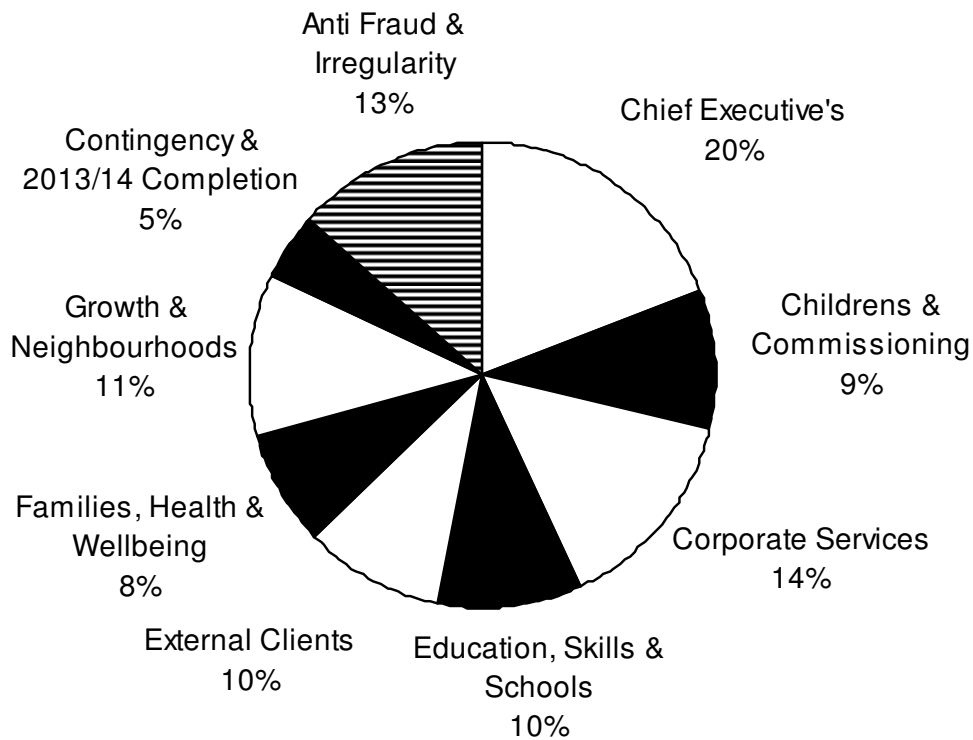
- 5.2. The time allocated to developing systems is reflective of the need to support the next phase of the design and implementation of service transformation proposals and this includes responding to changes in the management arrangements across Childrens and Families, work around Public Service Reform and the ongoing development of the commissioning hub.
- 5.3. The need for continued investment of time in anti-fraud, irregularity and probity work continues although it should be noted that some probity and fraud management work is also reflected in the risk allocation.
- 5.4. The approximate split of total available auditor time across the 2014/15 plan will be as follows:



*The above includes approximately 250 days of services planned to be provided externally to the Greater Manchester Combined Authority, Manchester Family of Companies, OneEducation, Schools and Academies.

- 5.5. The emergent plan has been compiled to reflect the Strategic Management Team and Directorate structure in the Council as follows:
 - Chief Executive's: Deputy Chief Executive (Performance) and City Solicitor.
 - Corporate Services: City Treasurer.
 - Deputy Chief Executive (Growth and Neighbourhoods)
 - Children's Services, Education and Skills: Director of Children and Commissioning.

- Families, Health and Wellbeing: Director of Families, Health and Wellbeing.



5.6. The emergent plan is based on the current business plans and savings proposals for the Council for 2014/15 which we acknowledge are subject to ongoing consultation in a number of areas. To help ensure the plan is flexible and the service able to respond to key risks in the year the emergent plan includes some block allocations of time from which specific audits will be delivered in the year. Although these form only part of the overall plan they demonstrate some of the key theme areas that the service will focus on in the year. Further details will be provided to Audit Committee in the finalised plan in July and throughout the year.

Block	Days
Assurance Mapping & Compliance with Statutory Duties	100
Schools	193
Contracts and Commissioning	182
Grant Certifications	87
Information Governance and Security	62
Public Sector Reform and Troubled Families	102
Core Financial Systems	200
Contingency	66

Scale of Plan

- 5.7. The annual plan needs to be deliverable within available resources. The service has an approved establishment of 18 staff (excluding the Head of Internal Audit and Risk Management) equivalent to 17.2 FTE. There is currently one vacant auditor post which is not reflected in the resource allocation and one member of staff will also be on maternity leave for a substantial part of the year.
- 5.8. As a result of this planning the latest forecast of available resources to be allocated to the management and delivery of direct audit work is 2,793 days. 280 days of this relates to work for external clients. This total available time compares to 2,565 planned days for 2013/14.

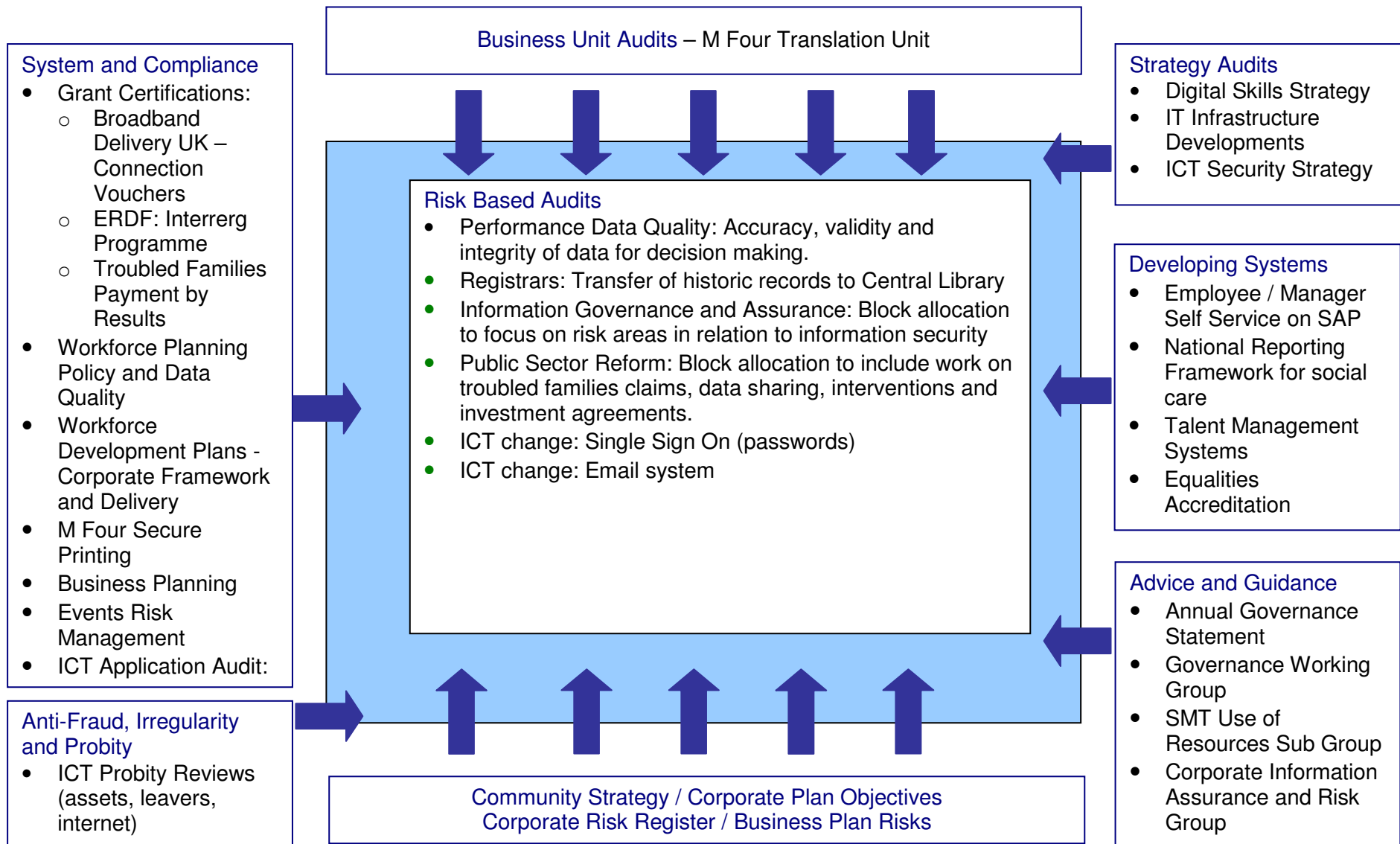
Emergent Plan Content

- 5.9. Within this framework an emergent work programme of potential work has been developed as shown below. This is based on an assessment of risk.
- 5.10. Consultation is ongoing with directorate management team meetings and Strategic Directors. It is likely elements of the plan will be changed as part of this overall process of engagement and in reconciling proposed audit work with available resources. On the basis of these caveats the areas of proposed content as are being presented to management teams for their comments is set out below for Audit Committee consideration.

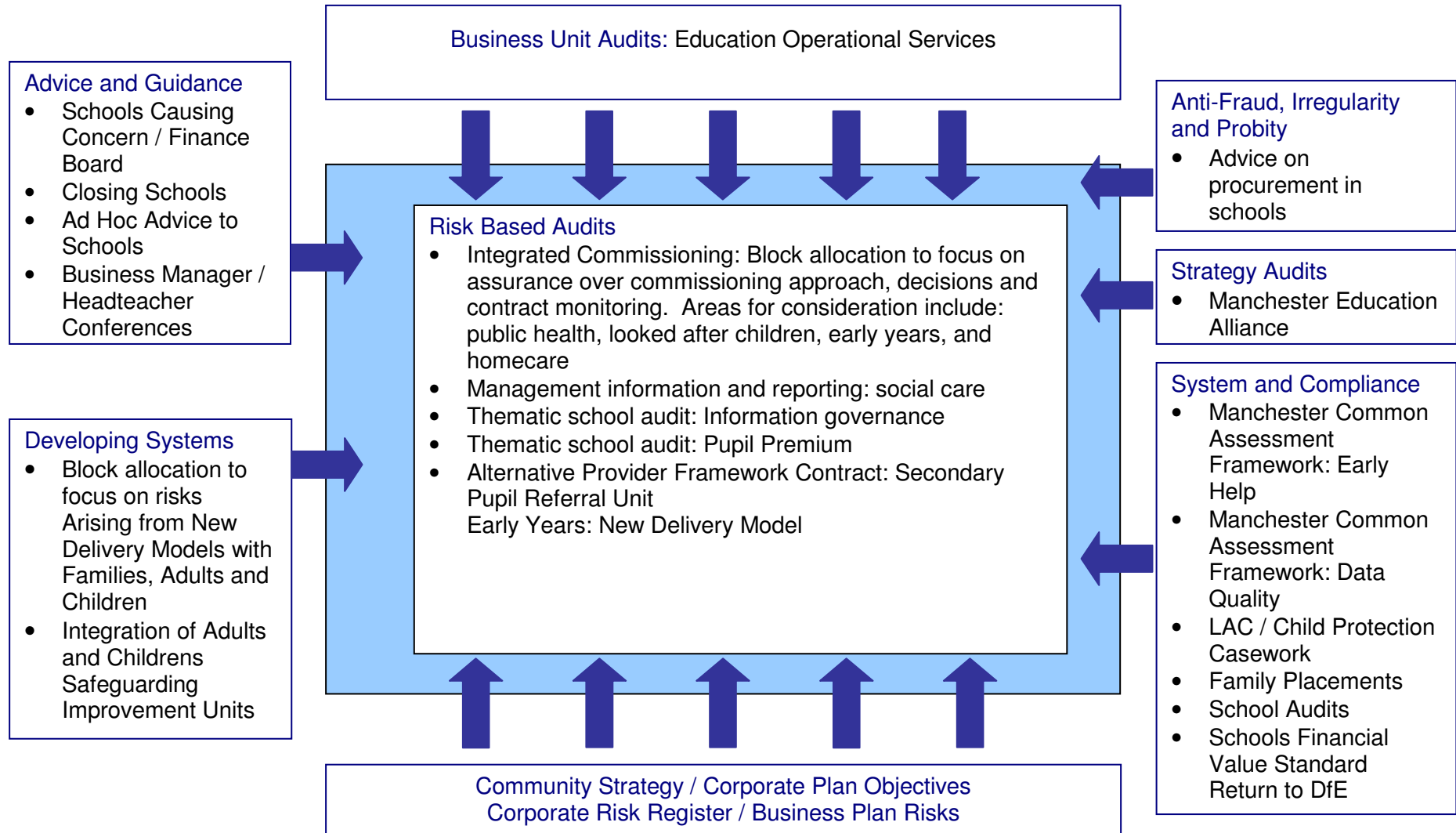
6. Recommendations

- 6.1. Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Plan which will be brought back for approval on 17 July 2014.

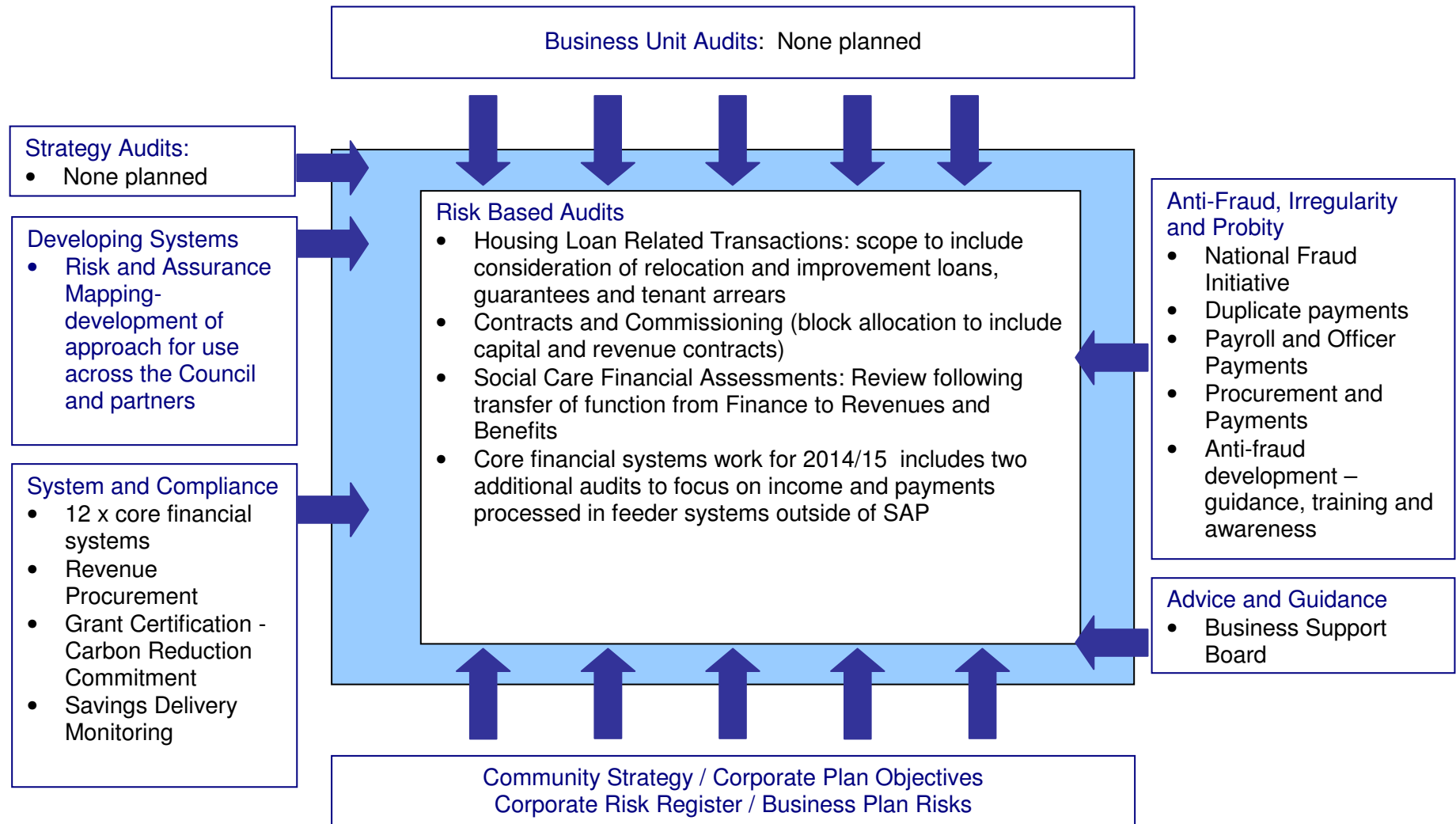
1. Deputy Chief Executive (Performance) and City Solicitor



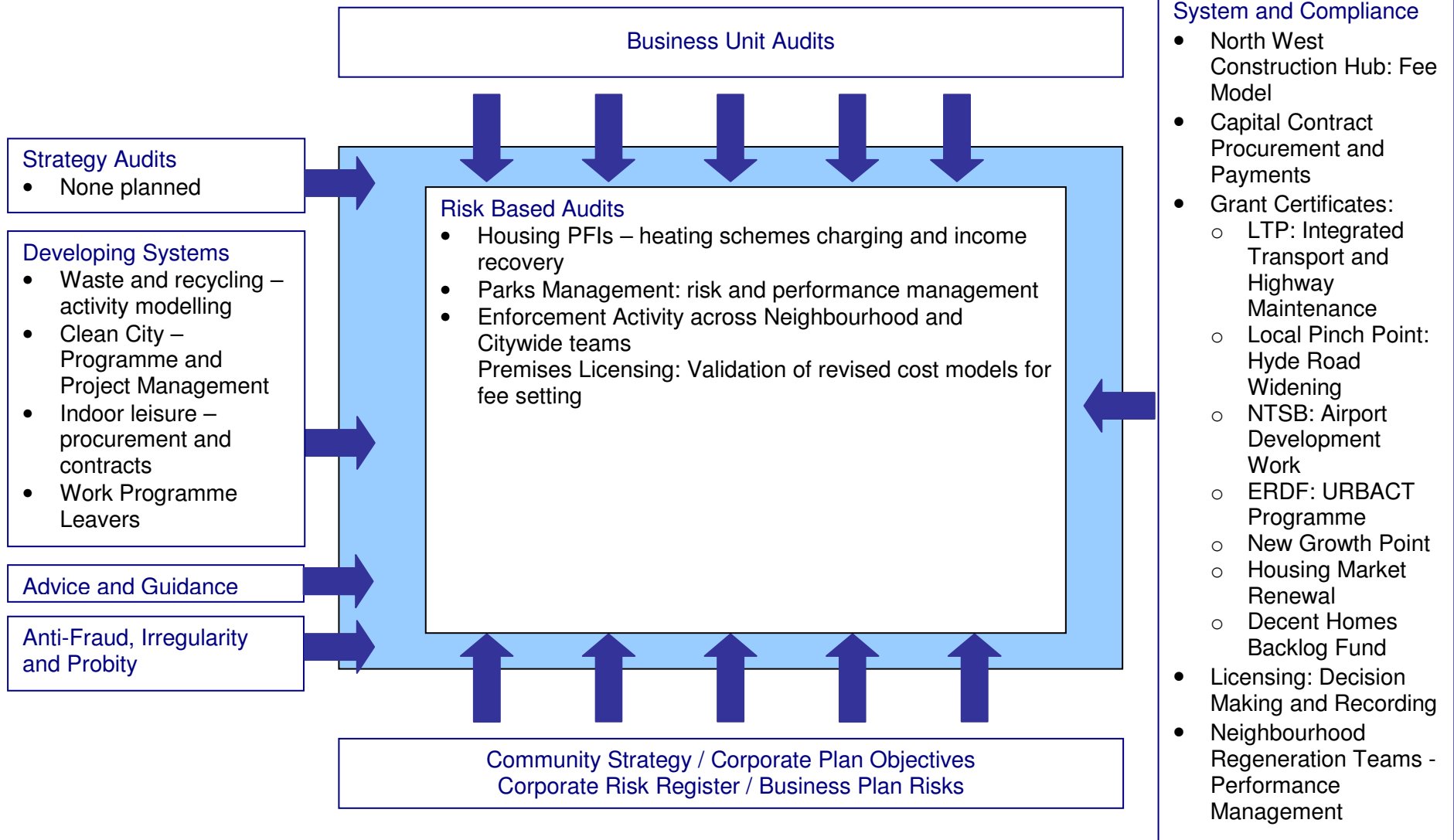
2. Children's, Commissioning and Schools



3. Corporate Services



4. Growth and Neighbourhoods



5. Families, Health and Wellbeing

