

**Manchester City Council
Report for Information**

Report to: Audit Committee, 20 March 2014
Subject: Annual Review of the System of Internal Audit 2013/14
Report of: City Treasurer

Summary

In accordance with the requirements of the Accounts and Audit Regulations 2011 the Council conducts an annual review of the effectiveness of its system of internal audit to be considered as part of its governance assurance processes, including the production of the Annual Governance Statement.

The report demonstrates that the Council has an effective system of internal audit including a policy framework, internal audit function, Audit Committee and effective management engagement.

Recommendations

Members are requested to consider and comment on the Annual Review of the System of Internal Audit 2013/14.

Wards Affected:

None

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Background documents (available for public inspection):

Internal Audit Annual Plan 2013/14 (June 2013)
Internal Audit Annual Report 2012/13 (June 2013)
Head of Internal Audit Annual Opinion 2013/14 (March 2014)

Manchester City Council Annual Review of the System of Internal Audit 2013/14

- 1.1 The Accounts and Audit Regulations 2011 require that “a larger relevant body (*the Council*) must, at least once in each year, conduct a review of the effectiveness of its internal audit” and confirms that the findings of the review “must be considered as part of the consideration of the system of internal control”.
- 1.2 Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance processes are being evaluated and will be reported in the Annual Governance Statement.
- 1.3 To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those tasked with completion of the Annual Governance Statement and by the Audit Committee.
- 1.4 The review was overseen by the City Treasurer and the report is presented for Audit Committee consideration and comment.

2 Current Arrangements for Internal Audit

- 2.1 A dedicated Internal Audit Section forms part of the system of internal audit in the Council. The Section is part of the Internal Audit and Risk Management Division of the Corporate Services Directorate. It is led by the Head of Internal Audit and Risk Management. It has links with the Risk and Resilience, Insurance and Claims and Health and Safety sections which form the Division and works closely with others in the Council tasked with governance, assurance and risk management. Whilst part of a wider Division, the Section retains its own identity as Internal Audit for the Council being managed by the Audit Manager.
- 2.2 The Head of Internal Audit and Risk Management reports directly to the City Treasurer but also has direct access to the Chief Executive, Executive Member for Finance and Human Resources and the Audit Committee.
- 2.3 At the start of 2013/14 the in-house team comprised 18 approved posts plus the Head of Internal Audit and Risk Management. This was reduced to 17 following a review and the removal of a Lead Auditor post in May 2013. One auditor left the Council part way through the year and this post remained vacant at year end. This team delivered work for the Council as well as approximately 200 days of work for external clients including the Greater Manchester Combined Authority.
- 2.4 The Vision for Internal Audit was described in the Divisional Business Plan and Annual Audit Plan 2013/14. The Internal Audit Service Terms of Reference (TOR) outlines the status of the Section and define the principles of how it operates within the Council. The TOR provides appropriate arrangements to ensure that the Section is sufficiently independent and objective and that there is access to all information and people required to

discharge its responsibilities. However the requirements of the new Public Sector Internal Audit Standards (PSIAS) mean that a number of changes are to be reflected in an updated Charter for Internal Audit and a refreshed TOR for Audit Committee. Both will be resubmitted to Audit Committee in 2014/15 for reconsideration.

- 2.5 Arrangements for investigation work are defined in the Council's policies and procedures for Anti-Fraud and Whistleblowing and these are reported to the City Treasurer and Audit Committee in the Annual Fraud Report. There are plans for a review of the approach to counter fraud activities and resourcing for the Council to ensure that the service offer continues to address the key risks. The proposals will be reported to Audit Committee in the coming year.
- 2.6 To examine the effectiveness of the Internal Audit Section for the past year this annual review considered several key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:
- The structure and resourcing level, including qualifications and experience of the audit team.
 - The extent of conformance with the PSIAS in producing quality work.
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis.
 - The overall performance of the audit team.

3 Resourcing, Qualifications and Experience

Resourcing

- 3.1 During 2013/14 there were some staff changes with a Lead Auditor leaving on voluntary severance and a resignation of a junior auditor moving to an accountancy role in the third sector. Resources were also impacted by two maternity absences and three staff continued to work on reduced hours arrangements which reduced available audit time. As a result there were on average 14.5 audit staff available for audit work during the year against the approved allocation of 17 staff within the Section.
- 3.2 Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The Head of Internal Audit and Risk Management and Audit Manager took on responsibility for some referred work and investigations where appropriate to support delivery and there was flexible working from the auditors in year working in different teams based on priority issues. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were reported regularly to clients, directorate management teams and to Audit Committee.
- 3.3 The audit plan is on target for completion by year end and there will be minimum need to carry forward audit work from 2013/14 into next year except

where draft reports still require management responses to enable final reports to be issued in April or where the business have asked for some timing and/or scope changes in the work. Some work was deferred following review of the audit plan and this was agreed at the Audit Committee in January based on other priority work and/or timing of the proposed assurance activity.

- 3.4 To supplement the in-house team, limited external resources were used as planned for specialist ICT audit work from colleagues in Salford Computer Audit Service. This provides technical expertise to complement the work of the Lead Auditor with responsibility for ICT.

Structure

- 3.5 The structure of the Section in 2013/14 is attached at appendix 1. This reflected the configuration of the Council at Strategic Director level and allowed for close client liaison during the year. Team portfolios were adapted in year to reflect some service changes and have been reviewed again recently as a result of the organisational changes. For 2014/15 six teams will remain allowing the opportunity for auditors to continue to develop a depth of knowledge and client relationships. This offers continuity to clients who can then regularly deal with the same auditors over a period of time. We consider this approach continues to be successful in building a better understanding the Council and its business needs and objectives and the Section continues to receive positive feedback from managers on this approach. There is a need for some staff rotation for development purposes and to maintain objectivity and this year it is proposed to move four staff between teams for this reason.
- 3.6 The Section structure for 2014/15 is shown at appendix 2. It is not proposed to change the structure fundamentally but there will be some realignment of responsibilities within each area.

Audit and Risk Management

- 3.7 The creation of the Audit and Risk Management Division enabled the objectives for Internal Audit to be more clearly articulated through the business planning process and is demonstrated in business plans. Key priorities, options for development and service delivery, business objectives, assessments of performance and workforce plans are described in the Audit and Risk Management business plan which has been used to inform the development of section, team and personal objectives and provide the basis for performance management and improvement. Shared intelligence and some joint working has been undertaken to improve the assurance and support services offered to the business and schools while maintaining the Internal Audit's distinct identity.

Training and Experience

- 3.8 The training and development approach which has been in place since 2005 encourages development through both the career grade auditor scheme and continuing professional development.
- 3.9 In the year five trainee auditors completed their IIA Certificate and were offered a range of audit work to develop their audit skills and experience. Two auditors continued to work toward the IIA Diploma and one is completing the

IIA Certificate. All other staff held at least one audit qualification. For continuing professional development all staff had access to and attended events selected from an internal offer of professional knowledge and skills sessions and a number of external training events. Individuals keep records of their continuing professional development based on their professional body requirements. A training plan for the coming year has been constructed based on needs for the service, linked to service business and workforce development plans.

- 3.10 The following information about qualifications and experience of staff available for audit work demonstrates the experience and qualification mix.

Experience 2013/14

Auditing Experience	All Auditing	%	In local government auditing	%
Up to 1 year	0	0	0	0
1 to 2 years	4	22%	4	22%
2 to 5 years	0	0	0	0
5 to 10 years	4	22%	9	50%
Over 10 years	10	56%	5	28%
Total Staff	18		18	
Includes Head of Internal Audit & Risk Management but excludes one vacancy.				

Qualifications

Accountants (CIPFA, FCCA, ICAEW)	3
Institute of Internal Auditors - fully member	7
Institute of Internal Auditors – part qualified or Audit Certificate	7
Studying for Audit Certificate (IIA)	1
Total	18

- 3.11 The level of experience of audit staff was increased with the trainees who completed the IIA certificate course and experience log. Long standing experience was reduced slightly with one senior officer leaving in the year. The skills level available remains high based on the substantial number of staff with over 10 years experience and competencies in specific areas.
- 3.12 At 31 March 2014 the Section will have one vacancy. There is an equivalent of 0.8 full time post unresourced as a result of three members of the team working reduced hours and there will be an ongoing maternity absence until October. This will be reflected in the audit plan proposed for 2014/15.

4 Conformance with UK Public Service Internal Audit Standards (PSIAS)

- 4.1 Internal Audit carried out a self assessment against the key elements of the PSIAS. For 2013/14 this demonstrated that that the Section was meeting 91% of the applicable Code requirements fully and 5% partially met.

- 4.2 There is still some further work to be done to adjust current processes and documents: specifically related to the need to assess the requirements of a gap analysis carried out against the PSIAS and to develop an improvement plan known as the Quality Assurance Improvement Programme (QAIP). This work is now in progress.
- 4.3 All staff were introduced to the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years staff were additionally required to read and sign a document confirming they understand the ethics and behaviours requirement. All staff provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which arise during audit activities. Staff remained obliged to raise any conflicts or issues with management during the year. Records are maintained for this.
- 4.4 Quality of audit work was actively managed in year and the achievement of quality standards enabled the Head of Internal Audit and Risk Management to confirm that work was done in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received on some draft reports and from post audit questionnaires. Managers discussed the value added by audit work with some customers to seek an assessment of quality and performance issues and to further explore the effectiveness of the audit approach. It is planned to change the way in which this is carried out next year with changes proposed to the customer feedback process.
- 4.5 External Audit continued to provide positive assurance over the approach to Internal Audit. As a result of their last review they confirmed that they could take assurance over the quality and extent of audit work done in 2012/13 including assurance over the core financial systems activity and agreed to the approach taken for the work in the 2013/14 audit plan. Their review of work on the 2013/14 programme is due for completion in March 2014.
- 4.6 Liaison with the external auditor was productive and audit plans were co-ordinated within this process. The two services continued to share information and to use this to inform risk assessments and direct audit activity.

5 Ensuring the Effective Prioritisation of Audit Work

- 5.1 Prioritisation of the work of the Section is achieved by the development and delivery of an annual, risk based audit plan. This describes the assurance plans for the Section and includes some capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and investigation work to ensure that assurance over the Council's systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 5.2 The Section's methodology for establishing audit priorities is aligned with the Council's governance and risk management systems. Audit plans are

developed through an assessment of risk and assurance needs to support the Council's overall objectives. The approach is set out in the Emergent and Final Audit Plans presented and agreed by the Audit Committee.

- 5.3 It is considered that the 2013/14 Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with senior management and Audit Committee. It was based on reasonable estimates of available resources and despite higher than anticipated numbers of management requests for support and a large number of fraud investigations and referrals the plan is largely on track to be delivered. The emergent plan for 2014/15 will be presented to Audit Committee for consideration in March 2014 and will be finalised in July 2014.

6 Performance Measures

- 6.1 Performance management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for is the completion of the plan within the year.
- 6.2 Performance and progress are monitored through KPIs. These are agreed across Core Cities and allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
- 6.3 Key performance measures for the Section over the last five years are:

	Target	2013/14 to date	2012/13	2011/12	2010/11	2009/10
Days spent on audit work as % of available days	76%	86%	81%	83%	82%	91%
Audit reports and other outputs issued in year	140	111	109	219 #	254 #	206
Actual time on audits compared to original estimates	110%	98%	109%	121%	112%	120%
Customer satisfaction (satisfactory or better)	95%	100%	100%	87%	97%	100%
Customer satisfaction (good or better)	75%	100%	87.5%	67%	74%	70%
Draft reports issued within 3 months of audit start	90%	62%	73%	91%	85%	77%

Included FMSIS reports that ceased in 2011/12

- 6.4 The key performance measures show that the percentage of available days spent directly on audit work was above target at 86% which is a positive indicator of how available time was utilised. This was due to continued active

- management of time and effective scoping and agreed timing for audit work which reduced delays and any down time.
- 6.5 As previously reported the number of outputs delivered has reduced from 2011/12 largely due to the removal of FMIS reporting which generated a large number of outputs to schools. There are a number of audits in progress and at draft report which mean the target 140 is expected to be met.
- 6.6 The percent of time against plan came in at 98% which indicates that more work was delivered within the agreed budgets for individual audits. This is better than in previous years and is based on active management and review of audit plans and activity.
- 6.7 For customer satisfaction there has been positive feedback on a number of specific jobs and this is reflected in the results from customer satisfaction questionnaires. A number of other positive comments were received from clients who commended the flexibility that the audit team had shown in supporting them in addressing emerging issues as well as in adapting audit plans to better address business risk. There was praise for the timely work on several specific issues to support senior management in a number of areas.
- 6.8 However the Service remained concerned about the low level of CSQ returns from clients and as a result the indicator was based on a very small return. Plans to carry out a programme of follow up with clients are intended across the Audit and Risk Management to replace customer satisfaction questionnaires and will be done as part of the Quality Assurance Improvement Plan for 2014/15.
- 6.9 The elapsed time indicator is an assessment of the timeliness of the audit activity from start to draft report. It is of some concern that the KPI shows only 62% of reports issued within three months of audit start dates. This is in part a function of data quality with start dates recorded well in advance of actual fieldwork starting so this measure will be revisited for 2014/15.
- 6.10 No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.
- 6.11 Internal Audit costs and coverage are benchmarked with other Councils through CIPFA as well as through the Greater Manchester and Core Cities networks. The latest available figures for example showed that the cost of Internal Audit in Manchester, as a percentage of Council turnover, remains below average. There are a range of other figures and measures that the service uses to inform business planning and to ensure that ongoing actions are taken to deliver and demonstrate value for money in the work done.

Implementation of Recommendations

- 6.12 The process for monitoring implementation of recommendations continued to build on improvements last year and there were good levels of engagement from many areas of the business. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered to address risk.

- 6.13 Internal Audit continued to engage with the Council's quarterly reporting process which involved assurance reports to Directorate Management Teams and to SMT bringing together issues from audit and other risk services to consolidate key risks and actions required. This process has helped to ensure that the time spent by the Service is targeted on key issues and that appropriate support and advice is offered at the right time.
- 6.14 Audit Committee are provided with regular updates from the Section during the year and have an opportunity to challenge progress and outcomes. This included asking senior managers to provide business updates as necessary where there is a significant risk or concern. This process had provided an effective method for obtaining assurance during 2013/14.

7 Audit Committee

- 7.1 The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2013/14.
- 7.2 Audit Committee requested reports from management in response to issues raised in Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

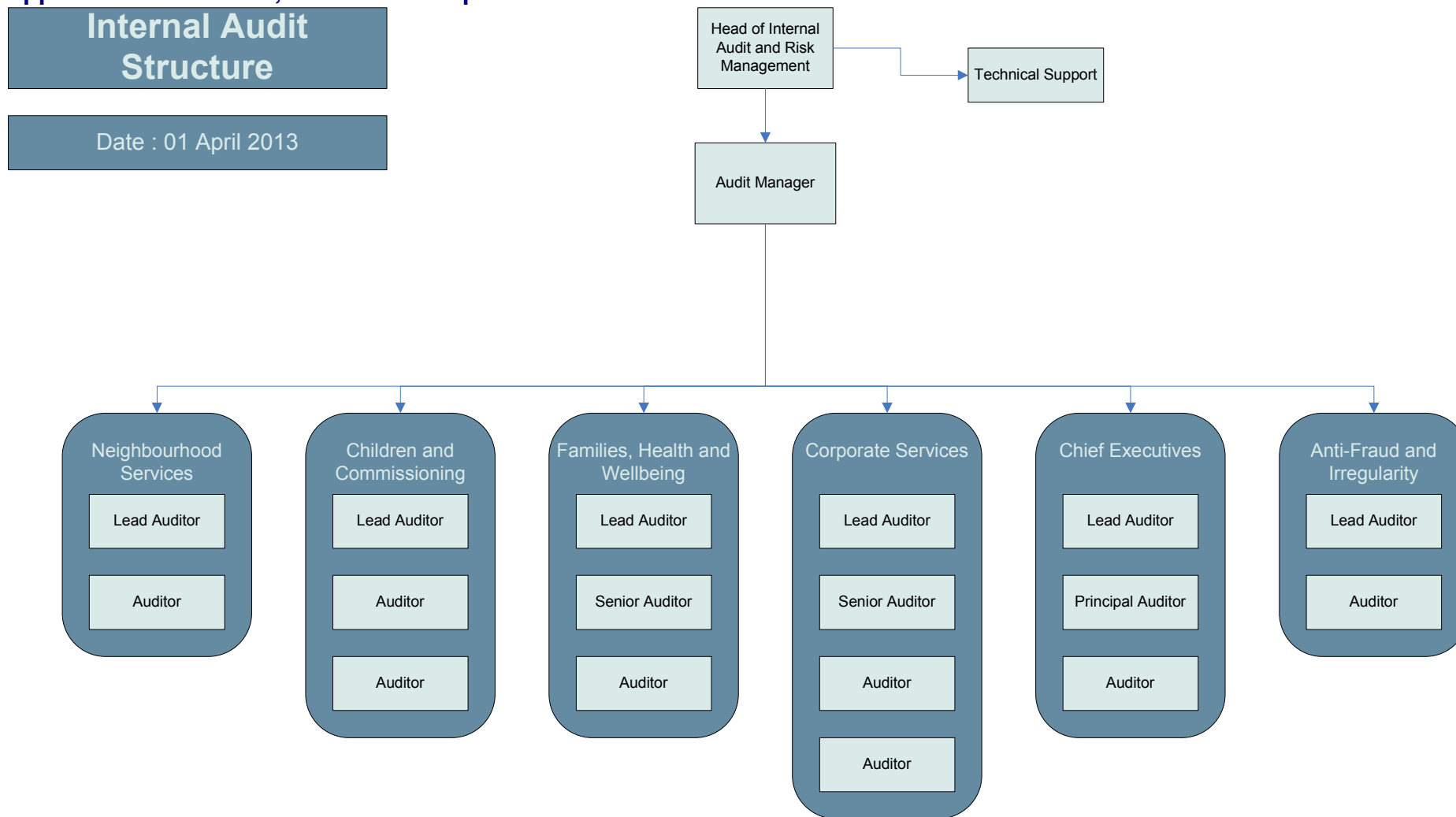
8 Summary and key priorities

- 8.1 The Section has continued to build on its strengths and to consolidate its role within the Audit and Risk Management Division. Service delivery remains a key priority in support of the Council's priorities and to help to identify and address any risks to delivery of corporate objectives. The Section is on track to deliver a comprehensive plan for the year and it is considered that the Section has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

9 Conclusions

- 9.1 Members are asked to note the findings and conclusions of the 2013/14 review of the effectiveness of the system of internal audit.

Appendix 1 - Structure, Roles and Responsibilities within the Internal Audit Section



Internal Audit Structure

Date : 1 April 2014

