

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee - 6 March 2017  
**Subject:** Emergent Internal Audit Plan 2017/18  
**Report of:** City Treasurer and Head of Internal Audit and Risk Management

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**Summary**

This report provides Members with details of the emergent Internal Audit Plan for 2017/18.

**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 Audit Committee approval in June 2017.

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**Wards Affected:** None

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Internal Audit Plan 2016/17  
Internal Audit Quarterly Assurance Reports 2016/17

## **1. Background to report**

- 1.1. Public Sector Internal Audit Standards (PSIAS) set out the standards for internal audit and have been adopted by the service in Manchester. The PSIAS are consistent with the previous CIPFA Code for Internal Audit that applied across local government and 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.
- 1.2. The purpose of this report is to update and engage Members of the Audit Committee in the development of the 2017/18 annual audit 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 2017/18 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 annual assurance opinion is an important part of the Council's assurance and governance framework and is specifically referenced in the Council's Annual Governance Statement.
- The current approach continues to include 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 which remains important given the amount of change ongoing across the Council and our partners. Time is allocated to support developing systems and a range of emerging projects, ensuring early engagement and audit support across the Council. Capacity is also retained to respond to in year assurance concerns raised by managers so that Internal Audit is proactive and able to help services to address new or emerging risks or issues.
- 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 for ongoing development in 2017/18 to further develop risk and assurance mapping across the Council.

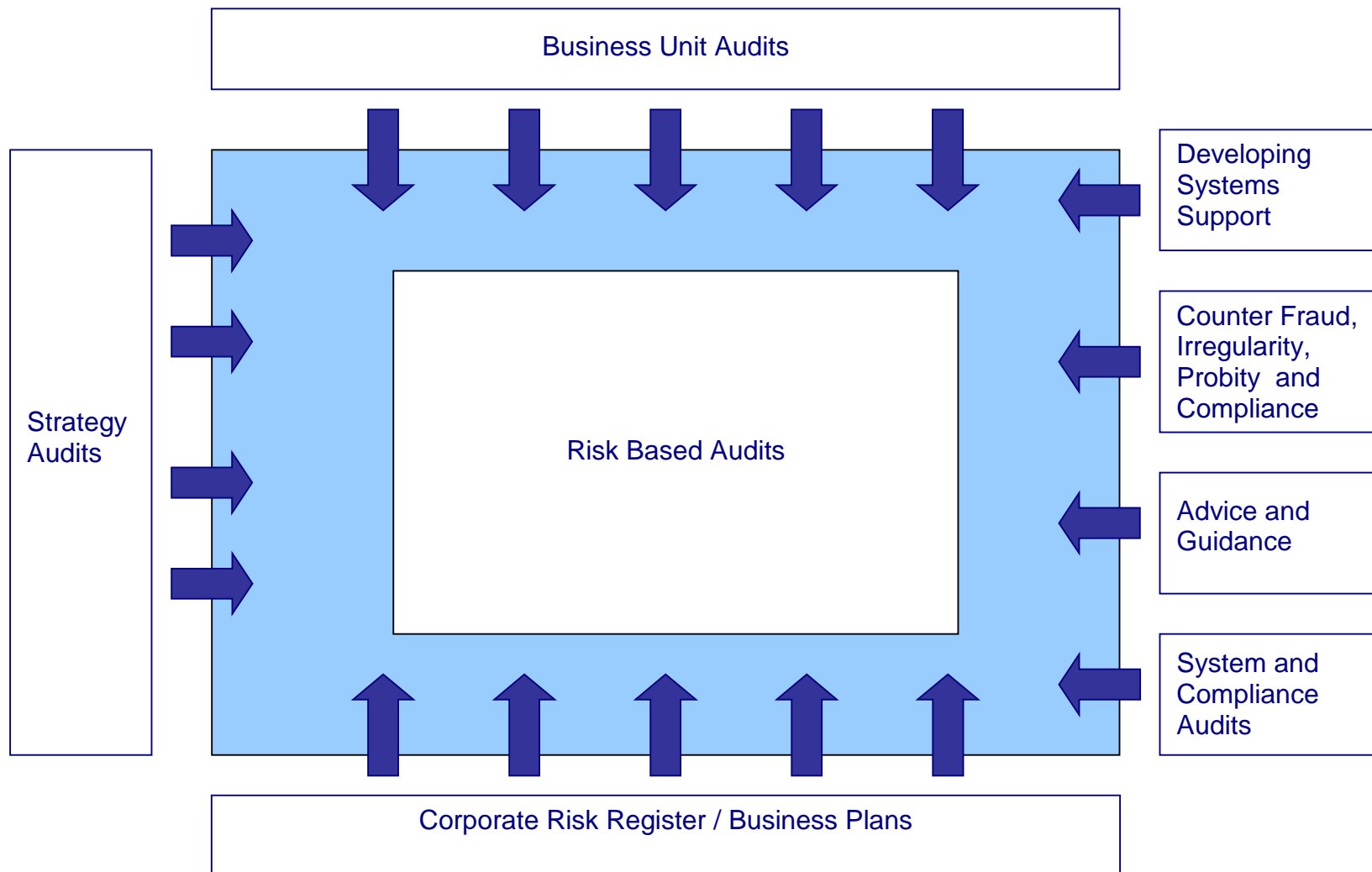
- The plan needs to be flexible and is reviewed and adjusted throughout the year, as necessary, in response to changes in policies, systems, processes, risks and controls across the Council.

***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, legal and ICT, to ensure that known and emerging unregistered risks from the corporate, directorate 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 Councils 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 2017/18 is based largely, but not exclusively, on the following:
- Review of the Corporate Risk Register (based on the latest draft developed in February 2017)
  - Review of Directorate Business Plans, risk registers and savings proposals.
  - Review of key strategy documents.
  - Cumulative audit knowledge and experience.
  - Analysis of outcomes from audit and investigation work in previous years
  - Engagement with Heads of Service and directorate management teams.
  - Engagement with audit colleagues across Greater Manchester and the Core Cities
  - Engagement with external audit.
  - Engagement with the Risk & Resilience, Insurance & Claims and Health & Safety teams within the Audit and Risk Management Division.
- 3.2. This emergent audit plan has been developed through the above processes and will be shared for consultation with directorate management teams to ensure that the risks identified are consistent with their understanding and assessment. The final version will be presented to Audit Committee in June 2017 for approval.

### 4. Key Characteristics of the Annual Plan

#### Scale and Pace of Change

- 4.1. As in previous years the organisational context for the Audit Plan remains one of development and change linked to the transformation, devolution and reform agenda. The design, commissioning and delivery of services continues to be impacted by ongoing need to safely deliver significant savings across the Council and the reform of public services across the City. Internal Audit are seeking to provide assurance over the reform agenda and business as usual offering guidance and support to management in addressing developments and areas of exposure to risk.
- 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 which may change in year. This remains relevant for 2017/18 based on a number of key factors including:
- Budget savings are to be delivered linked to transformation of services and changes in service delivery models.
  - The ongoing governance, risk and control impacts of devolution and major local changes such as the planned integration of health and social care need to be effectively managed
  - The early stages of development and implementation Our Manchester and new Our People strategy.

- The need for flexibility to provide appropriate assurance at various stages of projects such as The Factory and Our Town Hall.
  - The resource availability of Internal Audit Assurance and Counter Fraud is finite and needs to be targeted at areas of highest risk and where there is more benefit in support the Council's priorities. The plan therefore reflects the available resources of the Internal Audit Service.
- 4.3. As a result there are areas where the scope of some 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. This is achieved through the establishment of blocks of time from which individual audits are drawn down. Some of the key areas in the coming year include the impact of Our Manchester; Our People; Health and Social Care devolution; Our Town Hall; commissioning and contracts; and data governance and ICT.
- 4.4. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (hazards). The redesign of strategies, systems and processes; reconfiguration of services, roles and responsibilities; and aims through Our Manchester and Our People to inspire, connect and empower the workforce provide positive opportunities but also risks that key controls could break down if they not suitably redesigned or properly applied. To reflect this risk the audit plan allocates some time to provide for advice and guidance including developing systems to provide both **support** and **challenge**.
- 4.5. Internal Audit will deliver work on the core financial systems; data systems and reactive and proactive counter fraud, irregularity and probity audits. This will seek to provide assurance that the basic governance and control arrangements continue to operate effectively, minimising the risks of misappropriation, loss and error.
- 4.6. The pace of change across the Council requires assurance that is **prioritised** and **timely**. The Internal Audit plan seeks to provide assurances that enable solutions to be implemented on a focused and timely basis. The plan includes some shorter, more focused and practical audits in areas of emerging risk and provides the flexibility to design audit work accordingly.
- 4.7. 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 2017/18 and beyond.
- 4.8. Based on the context above the Head of Internal Audit and Risk Management considers that assurance is best obtained through delivery of a combination of different audit types and consideration of other sources of assurance across the Council informed and reviewed on a regular basis to ensure that the activity remains relevant and appropriate.

## **Plan Structure**

- 4.9. The emergent annual plan is comprised of a combination of different audits tailored to reflect the specific needs of the Council and is set out below. The intention is to provide for a plan that can address and support key areas of risk and development and provide assurance to senior management and Audit Committee that the system of governance, risk management and internal control is effective.
- 4.10. Strategy Audits: To provide an assurance opinion on the Council's strategic approach to the management of corporate strategies.
- 4.11. Business Unit: To provide an assurance opinion on the adequacy and effectiveness of arrangements to ensure the achievement of business area objectives, specifically through the management of finance, people, performance and / or risk. There are no such audits planned for 2017/18.
- 4.12. 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 independent assurance that appropriate steps are being taken to address risk. Such audits can often identify areas for improvement and result in a weak formal audit assurance opinion, however it is important that managers and Directors feel able to share key risks and continue to utilise audit support to help them identify issues and address concerns.
- 4.13. System and Compliance: To provide assurance to statutory officers and key stakeholders that key systems and processes are operating as intended. This continues to be critically important during an on going time of change.
- 4.14. Counter Fraud, Irregularity and Probity: Proactive testing of systems and processes to identify potential fraud and misappropriation or non-compliance with policies and procedures; and reactive investigations into potential wrongdoing, fraud and corruption.
- 4.15. Schools and Thematic Assurance: Assurance over governance and financial management to support Governing Bodies and the Local Authority and allow the City Treasurer to discharge her statutory obligations for maintained schools. In addition the service provides fee earning services to academies and schools who request support in addition to the core service offer.
- 4.16. Developing Systems: Assurance input at an early stage to support the development of new systems or processes or where changes are being proposed and provide advice on risk mitigation as needed.
- 4.17. Advice and Guidance: To provide advice on systems, processes and projects and could include attendance at working groups, project boards as well as responses to specific enquiries.
- 4.18. Contingency: To enable response to emerging risks in year.

## 5. Plan Content

- 5.1. In summary, there is a high level of focus proposed this year on risk based audits; compliance; and providing assurance over core systems to ensure assurance over business as usual. 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, systems and 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 a wide number of transformation proposals and this includes responding to changes in the management arrangements across the Core; Children's and Families; Health and Wellbeing; Public Service Reform; and Contracts and Commissioning.
- 5.3. To manage the audit plan and maintain flexibility within the resourcing available there are a number of block allocations proposed which will be used to draw down time for specific audit work based on risk assessment and need. This is to ensure that the plan remains current and responsive to business need in an ongoing period of change. In particular this approach will be used for proposed work on the Our Town Hall project; The Factory; Commissioning and Contracts; ICT; Our People / HR; and the impacts of implementing Our Manchester.
- 5.4. The need for continued investment of time in counter fraud, irregularity and probity work continues and much of this work is cross cutting. There is a need to balance the proactive resource plan with the reactive resources needed to respond to allegations and concerns raised based on risk triage and assignment of responsibilities between internal audit and other Council services.
- 5.5. The approximate split of total available resource across the 2017/18 emergent plan compared to 2016/17 is shown below.

	<b>Days 2017/18</b>	<b>Days 2016/17</b>
Advice and Guidance	101	179
Contingency and Completion 2016/17	105	170
Compliance	440	287
Developing systems	273	167
Strategy	0	121
Counter Fraud and Probity	600	504
Risk	290	338
System	669	462
External Work	376	279
Follow Up	82	71
<b>Total</b>	<b>2,936</b>	<b>2,578</b>



- 5.6. The emergent plan is aligned to the Council's directorates and thematic risks as set out below. This reflects the Strategic Management Team and Directorate structure in the Council and enables reporting to key stakeholders who are able to respond to assurance opinions and to drive service improvement solutions where needed. The current breakdown is as follows:

<b>Area</b>	<b>Days 2017/18</b>	<b>2016/17</b>
Corporate Core	412	350
Children and Families	301	280
Growth and Neighbourhoods / Strategic Dvt	218	275
Education, Skills and Schools	93	80
Contingency and Completion 2016/17	105	170
Data Information and Systems	305	258
Counter Fraud and Irregularity	600	515
Procurement, Contracts & Commissioning	343	300
External Clients	376	279
Follow Up	82	71
Advice and Guidance	101	In above
<b>Total</b>	<b>2936</b>	<b>2578</b>

### **Scale of Plan**

- 5.7. The annual audit plan needs to be deliverable within available resources. The Internal Audit Service has an approved establishment of 18 staff (excluding the Head of Internal Audit and Risk Management) equivalent to 17.2 FTE. There will be one vacant Lead Auditor post from 1 April following a recent successful external promotion and one member of staff will be on maternity leave for a substantial part of the year. Additional audit and ICT audit support is to be obtained to mitigate the impact of these changes. This is included in the above resource forecast and will be met through recruitment, placements or external resources.
- 5.8. 376 days will be assigned to deliver fee earning work for the GMCA and other clients / partners. This leaves a net total of 2,560 days for chargeable City Council audit work.
- 5.9. As part of the review of the resourcing requirements for the 2017/18 plan a review and validation exercise of the Internal Audit assigned portfolios is proposed. This will reflect on the organisation of the Council as a whole linked to assurance reporting arrangements and will assess the business delivery and management need for the coming year.

### **Emergent Plan Content**

- 5.10. The overall emergent plan is provided below for consideration. Consultation is ongoing with directorate management teams and Strategic Directors to develop scopes and consider timing where necessary and to confirm that the plans reflect key areas for assurance. It is likely elements of the plan will be

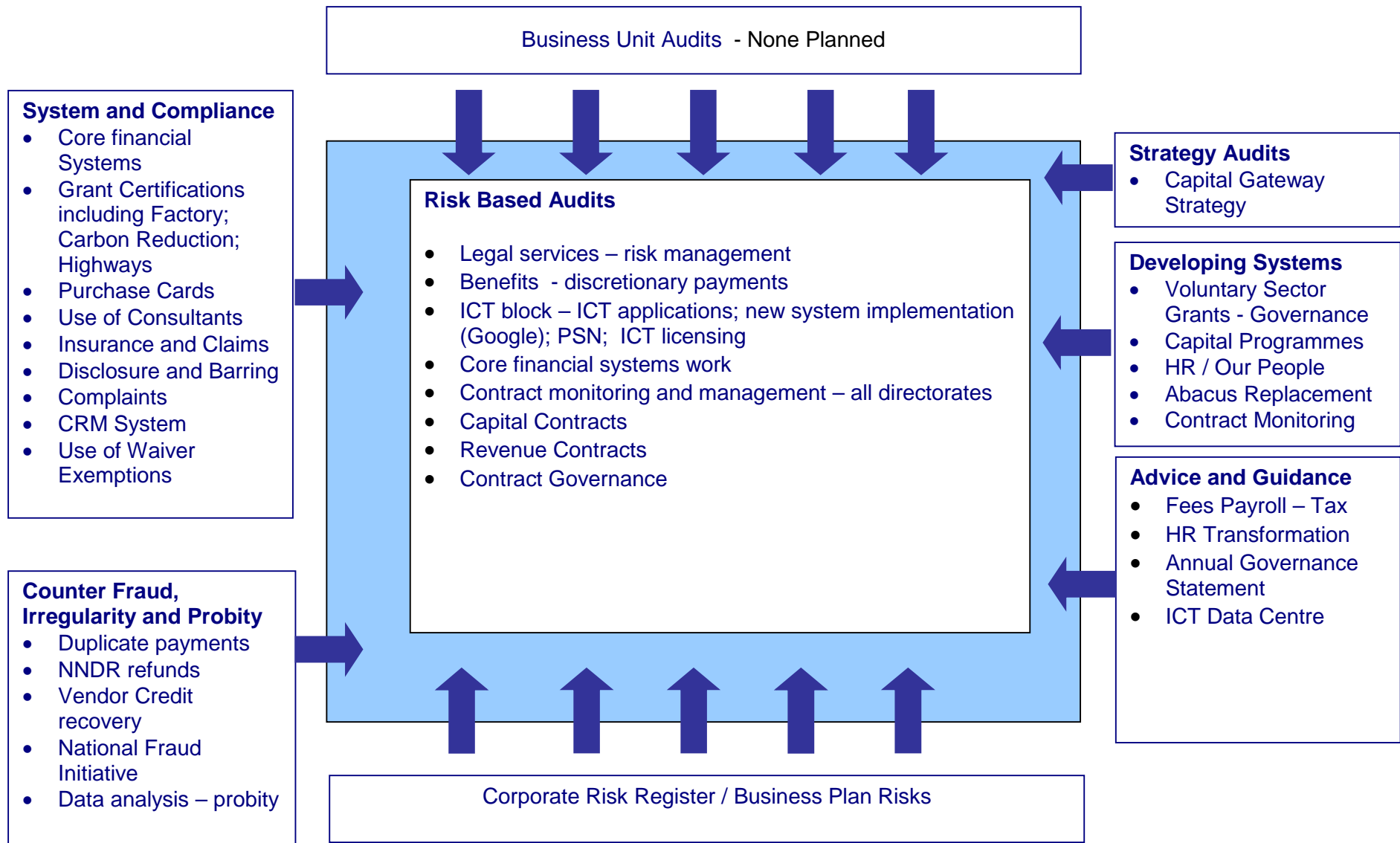
changed as part of this overall process of engagement and in reconciling proposed audit work with available resources and skills needs.

- 5.11. An allocation is made for advice and guidance to all services and a contingency to respond to emerging risks as necessary. The time includes attendance at boards, key working groups advising on matters of governance, risk and control at corporate and directorate level. Areas of focus will include Town Hall project; Information Governance; Capital Gateway Strategy; Governance for Voluntary Sector Organisations grant funding and ICT.
- 5.12. Time allocations include follow up to be carried out on previous areas of concern as well as overall monitoring based on management updates provided. Follow up is scoped on a risk basis with the focus being on action to improve where there were no or limited assurances provided and this will include some specific areas such as Highways; Christmas Markets; Early Help and Children's Safeguarding Assurance. These are identified as system, compliance or risk audits.
- 5.13. System and compliance audits will form a large part of the work in the coming year as a number of systems improvements and changes go live and /or where there have been actions taken to address existing risk. There is also a standing programme of business as usual work to provide ongoing assurance over core systems and work underway to develop the approach to continuous auditing of some core processes where this is feasible. The work includes a wide range of core business systems such as core financial systems; quality assurance framework compliance processes; contract management and monitoring arrangements; and grant certifications.
- 5.14. Risk audits are a mixture of assurance activities following up on previous reported concerns or reflecting recent risk assessment and assurance requirements. Examples include Mental Health Safeguarding; Legal Services risk management and delivery of savings. Outcomes will be reports or advice and guidance depending on the nature of the work agreed.

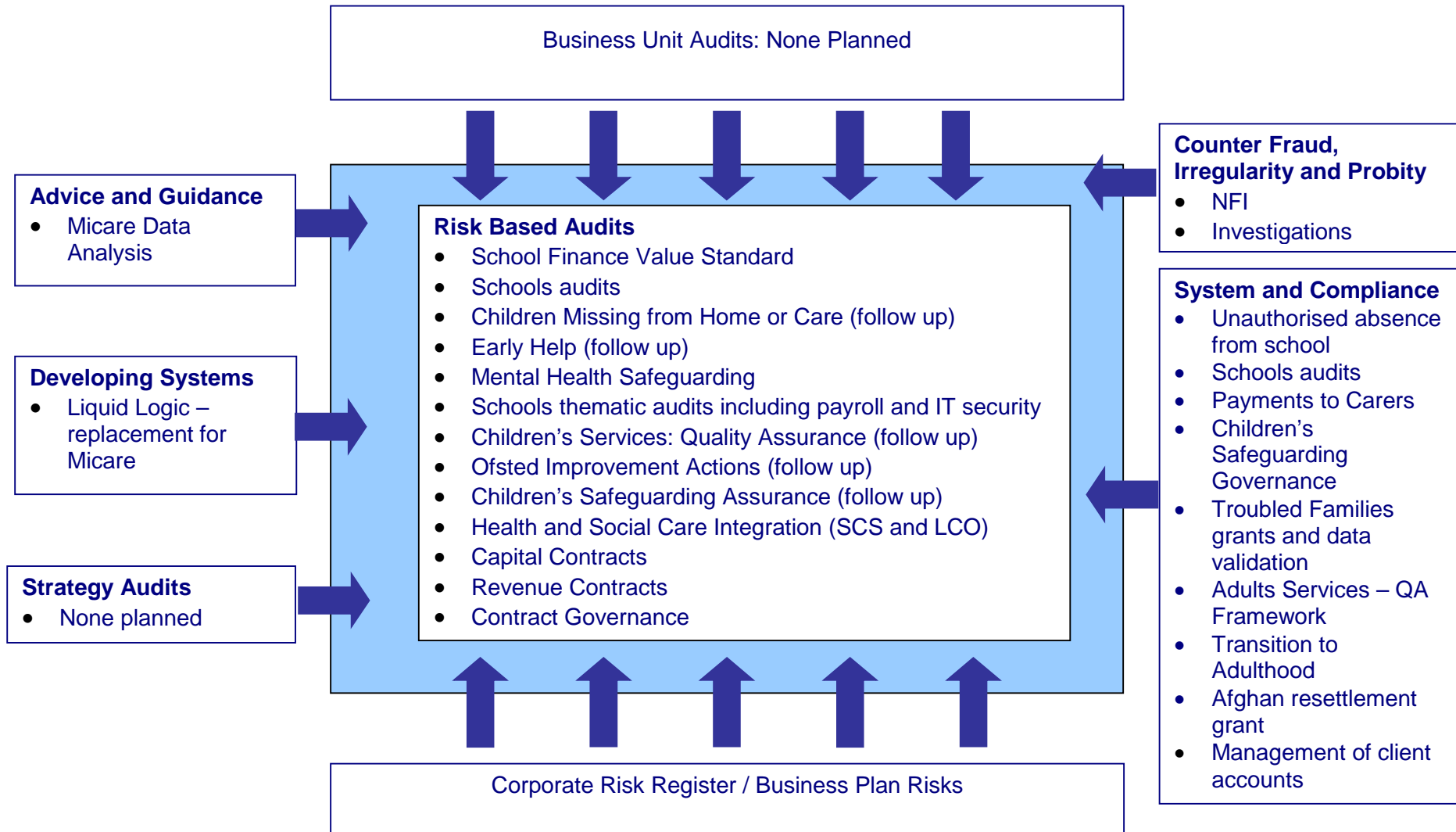
## **6. Recommendations**

- 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 as a final version with more detail of scope and coverage for approval in June 2017.

## 1. Core



## 2. Children’s, Families, Education and Skills



### 3. Growth and Neighbourhoods / Strategic Development

