



Audit Committee

Date: Tuesday, 16 March 2021
Time: 10.00 am
Venue: Virtual meeting - livestream link:
<https://vimeo.com/514250482>

This is a **Supplementary Agenda** containing additional information about the business of the meeting that was not available when the agenda was published

The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.

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Membership of the Audit Committee

Councillors - Ahmed Ali (Chair), Clay, Lanchbury, Russell and Watson

Independent Co-opted Members – Dr S Downs and Dr D Barker

Supplementary Agenda

- | | |
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| 6. External Audit Update Report | 3 - 12 |
| The report of the Council's external auditor is enclosed. | |
| 7. Internal Audit Plan 2021/22 | 13 - 24 |
| The report of the Head of Internal Audit and Risk Management is enclosed. | |
| 8. Internal Audit Strategy and Resourcing | 25 - 38 |
| The report of the Head of Internal Audit and Risk Management is enclosed. | |

Further Information

For help, advice and information about this meeting please contact the Committee Officer:

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This supplementary agenda was issued on **Wednesday, 10 March 2021** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 3, Town Hall Extension (Lloyd Street Elevation), Manchester M60 2LA

Audit Progress Report

Manchester City Council

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2. National Publications

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Item 6

01

Section 01: **Audit Progress**

Audit Progress

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

We are awaiting receipt of the Council's 2019/20 Whole of Government Accounts (WGA) submission and have not therefore completed the final element of our 2019/20 audit. The national WGA submission process has changed for 2019/20 and there have been significant difficulties with the HM Treasury system which have caused the Council challenges and delays. When our audit work is completed, we will issue our completion certificate and our final report for the 2019/20 audit, our Annual Audit Letter. This will be presented to a future Audit Committee meeting.

We have commenced our audit planning for the 2020/21 audit, and intend to present our Audit Strategy Memorandum to the April 2021 Audit Committee meeting. We have held regular discussions with the Council's Deputy Chief Executive & City Treasurer and these help us to keep up to date with emerging issues that may impact on our external audit.

One issue that has been discussed is the timetable for the production of draft financial statements and the delivery of our external audit of them. In 2019/20 the Council produced its draft financial statements by the end of July and we completed our external audit on 30 November 2020. Delivering the 2020/21 closedown of accounts, and external audit, is as challenging as it was in 2019/20, with additional detailed work continuing to be required on the valuations of land & buildings and pension liabilities for example, as well as the continued significant impact of the Covid-19 pandemic on the Council and ourselves.

The timescales for the 2020/21 audit require the Council to complete their draft accounts by June 2021 and for our audit work to be completed by September 2021, which is two months earlier than the extended deadlines agreed for 2019/20.

Audit Progress

Audit progress (continued)

Mazars and the City Council have responded to the national consultation around audit timescales and believe that achieving this timetable will place significant pressure on the Council's finance staff and our own external audit staff. It should be noted that as of the end of January 2021 the external audit of 180 local authority financial statements remained outstanding.

We believe that the timescale for 2020/21 for the audit of the City Council is unrealistic, particularly given the complexity of the Council's financial statements. We have been in discussion with the Deputy Chief Executive and City Treasurer about the timetable and whether it would be more realistic to plan for the Council to complete the draft statements for the single entity and group accounts by August 2021, and for us to complete the external audit by November 2021. We will continue to work closely with the Council in the closedown process, to review working papers and start key areas of work on land & building valuations in advance of August to ensure the process runs as smoothly as possible.

From our knowledge of the Local Audit & Accountability Act 2014 and the Accounts & Audit Regulations we are not aware of any sanctions that apply to the Council or ourselves for not completing the external audit of the financial statements by 30 September 2021, although the Council will need to publicise on its website that the external audit hasn't yet been completed in order to comply with the statutory requirements. We will continue our routine discussions with the Council as they progress with their closedown arrangements, and we will continue to report our progress to the Audit Committee.

02

Section 02: National Publications

National Publications

	Publication/update	Key points	Page
National Audit Office			
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2	Good practice guidance: Fraud and Error	NAO guidance	

NATIONAL PUBLICATIONS

National Audit Office

1. Good practice in annual reporting, February 2021

The NAO has published an interactive guide that sets out principles of good practice for annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area. The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy (which includes Great Ormond Street Hospital for Children NHS Foundation Trust Annual Report and Accounts 2019-20 for its visually engaging example of an organisation's five-year plan).
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

It also provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>

2. Good practice guidance: Fraud and Error, March 2021

The National Audit Office's (NAO) work over the past year has shown that the risk of fraud and error has risen significantly during the pandemic.

In some cases this is because some counter-fraud controls were no longer safe to operate; for example, the Department for Work & Pensions' requirement for face to face meetings with benefit applicants. In other cases, the speed with which some payments have been made has left government exposed to higher levels of fraud and error than would normally be the case.

The NAO's work highlights what can be done to measure how much fraud and error there is in the system, put effective counter-fraud and error controls in place and detect and pursue overpayments to protect the taxpayer's interest.

<https://www.nao.org.uk/report/good-practice-guidance-fraud-and-error/>

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**Manchester City Council
Report for Information**

Report to: Audit Committee – 16 March 2021

Subject: Internal Audit Plan 2021/22

Report of: Head of Internal Audit and Risk Management

Summary

Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note from the Chartered Institute for Public Finance and Accountancy. The PSIAS confirm the Council should periodically prepare a risk-based plan of Internal Audit activity that is designed to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control. The Head of Internal Audit and Risk Management is required to communicate internal audit plans and resource requirements, including significant interim changes, to Strategic Management Team and the Audit Committee for review and approval.

The audit plan for 2021/22 sets out areas of proposed audit coverage for the year and the delivery of this plan will be reported to SMT and Audit Committee as part of regular audit reporting.

Recommendations

Members are requested to review and approve the Annual Internal Audit Plan for 2021/22.

Wards Affected: All

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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.

- Public Sector Internal Audit Standards and Local Government Application Note (CIPFA)- PSIAS
- Internal Audit Plan 2020/21 (Audit Committee July 2020)
- Internal Audit Strategy and Resourcing (Audit Committee March 2021)

1. Purpose of Report

- 1.1. The Public Sector Internal Audit Standards (PSIAS) set out the standards for internal audit and have been adopted by the Council's Internal Audit Service. PSIAS includes the need for risk-based plans to be developed for internal audit and for senior management and the board plans to review and approval them. For local authorities the "board" is defined as the Senior Management Team and the Audit Committee.
- 1.2. The plan for 2021/22 is based on PSIAS and the Internal Audit Strategy. It has been developed in a time of significant challenge and change as the Council continues to respond and recover from the Covid19 pandemic. On this basis and given the planned completion of a service restructure by July 2021 the plan focuses on the first six months of the year and update will be presented to SMT and Audit Committee in September to confirm the areas of planned focus through to March 2022.
- 1.3. This report sets out the draft audit plan for 2021/22 with the areas of proposed audit coverage for the year and the delivery of this plan will be reported to SMT and Audit Committee as part of regular audit reporting. The report should be read in conjunction with the Audit Strategy and Resources report detailing how the Internal Audit function will need to develop in the future.

2. Basis for the Plan

- 2.1. The PSIAS (section 2000) state that the Head of Audit and Risk Management must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. They refer to the need for the plan to reflect the assurance framework, risk management arrangements and input from management and the Audit Committee. These principles have been applied in the re-development of the 2021/22 plan.
- 2.2. Internal audit forms one of the sources of assurance for a local authority. Under the Accounts and Audit Regulations, authorities must undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, considering Public Sector Internal Auditing Standards (PSIAS) and sector specific guidance. The Regulations confirm the Section 151 Officer's responsibilities to make arrangements for the proper administration of the Council's financial affairs. In addition to the independent, objective assurance and consulting activity provided by Internal Audit, the Council will also place reliance on other sources of assurance; through effective risk and performance management, policy and process compliance monitoring, staff training and development, incident reporting and through the use of external advisors and assurance providers including regulators and the External Auditor.
- 2.3. The underlying principles for the audit planning process remain valid as follows:
 - It is not cost effective or necessary to obtain audit coverage of all strategies, systems, business areas and risks, so these are reviewed on a risk basis each year and may change.

- The plan is designed to enable the Head of Audit and Risk Management to provide an annual opinion on the Council's systems of governance, risk management and internal control (PSIAS 2010)
- A range of types of audit and assurance work provide for different scope and coverage. This includes the provision of advice and guidance to services and partnerships to support developing systems, high priority risks, issues and emerging projects.
- Audit seeks to place reliance on assurance mechanisms within the Council as well as the findings of other auditors and inspectors in forming the audit plan and in providing assurance.
- The plan is flexible and is reviewed and adjusted throughout the year in response to the changing governance, risk and control landscape. These changes will be communicated to Audit Committee and senior officers.
- Audit engages with Strategic Directors, Heads of Service and colleagues across the Council, as well as through networks and best practice forums, to ensure that known and emerging risks are considered and to ensure the plan is informed by expectations (PSIAS 2010.A2).
- The plan is based on an assessment of risks (PSIAS 2010.A1) with reference to Corporate and Directorate risk registers and proposed areas for audit assessed and ranked against risk criteria to determine priorities. The criteria considered are:

Welfare of People	Impact on Service Fulfilment	Impact on Strategic Objectives
Effective Use of Finance and Resources	Changes in management, structures or systems	Legality including statutory or regulatory obligations
Mandatory Requirement	Known control or fraud risks	Corporate or Key Directorate Risk

- 2.4. Following initial consultation, including risk horizon scanning the audit plan has been developed to provide key assurance requirements across the organisation.
- 2.5. The plan reflects the current service development priorities and for 2021/22 these include increased emphasis on:
- management accountability and assurance frameworks and assurance mapping;
 - data led and data driven assurance planning and delivery;
 - organisational change and partnership development; and
 - service ways of working including the use of technology and the further development of lean and agile audit approaches.

3. Characteristics of the Audit Plan

Context for the Plan

- 3.1. The Internal Audit Plan takes account of the Council's overall priorities and risks. The Service has carried out a review of business plans and priorities and horizon scanning to assess known and emerging risks. It is acknowledged that these may change and evolve over time so it is important that the annual plan is designed to offer sufficient flexibility to adapt plans and enable assurance to be obtained over emerging risks and take account of alternative sources of assurance.
- 3.2. For 2021/22 some of the key context in which the plan has been set includes:
- the ongoing Covid19 recovery and response including the requirements of Government for assurance over programmes funded through grants;
 - financial challenges and related budget savings required to be delivered by the Council;
 - organisational change including the further development of health and care partnerships and the 'supercharging of the Manchester Local Care Organisation; as well as the re-integration of the Northwards ALMO into the Council;
 - organisational development and improvement programmes including the Future Council programme, Race Review and the Better Outcomes Better Lives programme across adult services; and
 - Change activity including major capital projects, ICT investment and workforce development.

Timeframe for the Plan

- 3.3. The plan includes areas where the scope of work is not fully defined at the start of the year with some allocation of resource made in blocks, particularly for areas of planned focus for the second six months of the year. This time will be assigned when specific assurance work is more apparent and can be scoped effectively.
- 3.4. The detail of these planned areas of audit focus from October to March 2022 will be presented to SMT and Audit Committee in September 2021 as a mid-year update of the plan

Structure of the Plan

- 3.5. As in previous years the plan will include a range of audit activities which contribute to the assurance framework and to the Head of Internal Audit and Risk Management annual opinion. The relative split between the types of activity, incorporating ongoing Covid19 related work that will continue in 2021/22, is shown below.

Type of Assurance and Approximate Split		Examples
Audit Opinion Reviews	35%	System Audits Compliance Audits

		Risk Based Audits Governance and Strategy Audits Grant Certifications
Audit Assurance Reviews	35%	Covid19 Grants Post Payment Assurance Developing Systems Reviews Management Assurance Requests Assurance Assessments
Advice, Guidance & Support	5%	Attendance on working groups and boards Responses to reasonable, relevant management requests for support or guidance
Counter Fraud, Irregularity & Investigations	25%	Proactive counter fraud and irregularity activities Corporate counter fraud and irregularity investigations (including theft, procurement, payments and officer conduct) Claimant counter fraud investigations (including Council Tax, NNDR and Housing Tenancy fraud) Covid19 grants – error and fraud investigations

- 3.6. The outcomes of the audit opinion and audit assurance reviews, advice and guidance and counter fraud activity will be reported to SMT, Executive Members and Audit Committee. There are four levels of audit opinion (no, limited, reasonable, and substantial assurance). The audit opinion is considered alongside the impact of the system or area (high, medium, low) to provide a more rounded view of the risk areas to SMT and Audit Committee.
- 3.7. Progress to implementation of recommendations from all types of audit activity will be reported to SMT and Audit Committee and escalation action taken as required where there are delays in addressing risk. Quarterly updates are provided to this committee. Any significant audit recommendation that is more than six months overdue date is escalated to the Executive Member and Strategic Director for review and onto Audit Committee if it remains outstanding at nine months. For 2021/22 it is proposed that all recommendations that remain overdue for 12 months are closed for follow up by Internal Audit but are reported to SMT, Executive Member and Audit Committee and highlighted in the Head of Internal Audit and Risk

Management annual opinion and for consideration in the Annual Governance Statement.

4. Resourcing of the Plan

- 4.1. The plan is based on available resource for July 2021. For the first six months of the year this represents an increase in five staff compared to the position in 2020/21 with three fixed term placements starting in March 2021 and two staff having returned from maternity leave from April 2021. One officer who was providing operational PPE support throughout 2020/21 will also return full time to Internal Audit from July 2021.
- 4.2. In allocating staff time to audit work, allowance has been made for time to engage in the service review, in service and organisational change activity and in focused workforce development activity linked to service priorities.
- 4.3. The current plan of total resources to be allocated to the management and delivery of Council audit and counter fraud work for 2021/22 is 1,900 days. This is the resource confirmed in advance of completing a service redesign in July 2021 which is planned to provide resource availability for audit and counter fraud work of c2,300 days. The change in resource position following the service redesign will be confirmed to Audit Committee as part of the mid-year plan review in September 2021.
- 4.4. This planned level of capacity is based on the proposed service structure to be shared with staff as part of formal consultation. It is based on benchmarking with Core Cities and the assessment of the Head of Audit and Risk Management as to the scale of resource required to deliver a programme of work sufficient to support a robust, independent annual audit opinion and a scale of counter fraud activity necessary to deter, prevent, detect and investigate fraud and irregularity.
- 4.5. The current, confirmed resource availability for 2021/22 compares to a plan in 2020/21 of c1,500 days, much of which was spent on non-core audit activity supporting the Covid19 response and reflected vacancies and maternity leave across the Service.

5. Planned Areas of Audit Work

- 5.1. Set out below are the planned areas of audit activity after considering the review of the risks and the major changes the Council is facing. It should also be noted that the covid-19 related assurance activity will need to continue for business rates grants and other government returns. This work continues to impact on resources across the Core.
- 5.2. The plan for 2021/22 is focussed in more detail on the first six months of the year with areas of proposed focus for the period from October 2021 to March 2022 to be assessed further with management to define areas of risk and assurance need.

- 5.3. The areas in the plan below for April to September 2021 are being finalised with Directorate Leadership Teams to ensure that they appropriately reflect key risks across service areas and can be accommodated alongside current client commitments. Any amendments on the back of these discussions, or as a result of any other changes the council is facing will be confirmed to Audit Committee as part of the regular reporting.

April-September 2021

Area of Focus	Assurance Title
Core	Covid19 Grants: Payment Checks and Assurance Covid19 Mandatory Grant Schemes Post Payment Assurance Covid19 Discretionary Grant Schemes Post Payment Assurance Covid19 Grant Certifications EU Grant Certifications Our Town Hall Work Packages and Payments (from 2020/21) Future Council Programme Governance
Growth & Development	Avro Hollows Tenant Management Organisation Northwards Housing ALMO Integration Major Projects Assurance Estates Planning
Neighbourhoods	Covid19 Enforcement Assurance Traded Services (to be scoped)
Adults, Health and Care	Payments Systems Stabilisation Programme Payments Systems Assurance Health and Care Assurance Framework (from 2020/21) Better Outcomes Better Lives Programme Assurance Supervisions and Management Advice and Guidance: MLCO Development
Children's Services, Education and Schools	Planning for Permanence (from 2020/21) Supervisions (from 2020/21) Education Services (from 2020/21) Foster Care payments system Schools assurance mapping

Area of Focus	Assurance Title
Data Information and Systems	ICT Project Assurance: End User Device Rollout ICT Project Assurance: PCI DSS (Payments) ICT Project Assurance: EYES (Education and Early Years) ICT Assurance Map and Audit Needs Assessment Data Analysis and Assurance: Single Person Discount
Procurement, Commissioning and Contracts	Supplier Due Diligence (from 2020/21) Waivers and Contract Extensions Contract Management Adult Social Care
Counter Fraud and Irregularity	National Fraud Initiative Counter Fraud Risk Assessments and Training with Directorate Leadership Teams (completion of work started 2020/21) Fraud and Error Investigations: <ul style="list-style-type: none"> • Covid19 Reliefs and Grant Payments • NNDR • Council Tax Support • Housing Tenancy and Right to Buy • Other allegations • Whistleblowing and internal referrals

October 2021 – March 2022

Area of Focus	Assurance Title
Core	Core Financial Systems Assurance Debt Recovery and Write Offs Annual Governance Statement Significant Partnerships Register Climate Change Our Town Hall: Work Packages and Payments
Growth & Development	Northern Gateway Project Assurance Northwards Housing ALMO Integration Disabled Facilities Grant Certification
Neighbourhoods	Highways Grant Certifications Regulatory Services

Area of Focus	Assurance Title
	Planning and Licensing Youth Services
Adults, Health and Care	To be informed by Health and Care Assurance Map and BOBL programme assurance. Based on current risk assessments could include: <ul style="list-style-type: none"> • Multi Agency Safeguarding Arrangements • Supported Living: Aids, Adaptions and Technology Enabled Care • Direct Payments • Adults Services Quality Assurance Framework • Transitions Follow Up Review (Children’s to Adults) • Client Financial Services
Children’s Services, Education and Schools	Service front door: assessment and access Multi Agency Safeguarding Arrangements Leaving Care Schools Assurance Health Checks Safer recruitment in schools (cross cutting review) Schools Financial Value Standard compliance
Data Information and Systems	ICT Project Assurance: Flare Replacement Information Governance Compliance Data Analysis: Assessment of options to develop the service approach to data led and continuous audit.
Procurement, Commissioning and Contracts	Factory Project Assurance Social Value Compliance Low Carbon in Procurement Decision Making Frameworks – Selection and Award
Counter Fraud and Irregularity	Policy Framework Annual Review – Council and Schools Transparency Code Reporting Annual Fraud Report Fraud and Error Investigations:

6. Recommendations

6.1. Audit Committee is requested to

- Review and approve the Annual Internal Audit Plan for 2021/22

- Agree to a mid-year plan review and revision report to be presented in September 2021.

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**Manchester City Council
Report for Information**

Report to: Audit Committee – 16 March 2021

Subject: Internal Audit Service Development Update

Report of: Head of Internal Audit and Risk Management

Summary

This report summarises the key areas of Internal Audit focus over the last 12 months, the planned future strategy for audit within the Council and the areas of planned service change in terms of innovation and structure.

Recommendations

Audit Committee are asked to comment on the proposals for development of the Manchester Internal Audit Service and to receive further updates and reports in April 2021 (Annual Opinion) and September 2021 (Updated Internal Audit Strategy, QAIP and Annual Audit Plan).

Wards Affected: All

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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.

- Public Sector Internal Audit Standards - PSIAS
- Role of the Head of Internal Audit (CIPFA)
- The Effective Internal Auditor (CIPFA)
- Open source guidance accessed via the CIPFA and Institute of Internal Audit websites. Additional paid content used has been accessed through officer and organisational membership of these Institutes
- Internal Audit Assurance reports to Audit Committee 2020/21
- Internal Audit Plan 2021/22 (Audit Committee 16 March 2021)

1. Purpose of Report

- 1.1. This report presents Audit Committee with an update on actions being taken to support the ongoing development of the Internal Audit Service. The report summarises the key areas of Internal Audit focus over the last 12 months, the planned future strategy for audit within the Council and the areas of planned service change in terms of innovation and structure.
- 1.2. The Service is well respected both within and outside the Council with a positive track record of innovation and of identifying areas of risk and supporting management and stakeholders in the development of actions for improvement. It has developed many good practice ways of working and the team have played a crucial role over the last 12 months in supporting the Council's response to the Covid19 pandemic.
- 1.3. Over the last 18 months service resource levels have been impacted by staff moving to new roles outside the Council and by the need to support the Covid19 response. Alongside the significant scale of planned organisational change across the Council this has afforded the opportunity to review the scope and purpose of Internal Audit and this paper sets out the key areas of planned service development to meet future assurance requirements.
- 1.4. It sets out in summary the key areas of audit focus over the last 12 months, the planned future strategy and the areas of planned change in terms of innovation and structure.

2. Internal Audit During 2020/21

- 2.1. The role and function of internal audit reflected organisational risks and priorities that arose as a result of the Covid19 pandemic. During the first six months of 2020/21 the Internal Audit Service had to suspend the planned activities for the delivery of the Internal Audit plan in order to focus on the significant amount of assurance work and expertise needed to support the pandemic related work. The suspension of work to deliver the internal audit plan was formally reported to Executive as part of the monthly covid-19 update reporting. Internal Audit is not alone in this and all the services within the Corporate Core have had to change their delivery priorities.
- 2.2. In the early stages of the pandemic, internal audit staff focused on support to management across the Council in the assessment of risks and the provision of advice and guidance. This advice was captured in a log of proposed changes that were required to enable systems and processes to be sustained remotely. This included changes to arrangements in areas such as treasury management, procurement and emergency payments.
- 2.3. Other formal requests for support came from the Health and Safety Service and to Public Health to assist in the establishment of the Manchester Trafford PPE Mutual Aid Hub. Two Lead Auditors supported the set-up of the Hub and one has continued to manage the on-site operation throughout the year. As well as the on operational stores and logistics arrangements, this work

included support to the procurement and payments for urgent PPE and establishment of systems and processes to ensure that accurate recharges could be made to Trafford Council and to Manchester Clinical Commissioning Group for the recovery of eligible costs from NHS England and from Government. As a service internal audit has added significant value to this project through the provision of expertise in project management, control of assets, record keeping and financial reconciliation. It has also demonstrated the ability of the service to work in partnership across health and local government and in doing so support the delivery of over 10 million of items of PPE to those in need across the health and social care system over the last 12 months.

- 2.4. Whilst PPE has impacted a couple of the team, the work on business rates relief and business grants has been substantial. In common with most local authorities, Internal Audit were engaged early to provide support in the design of the multiple schemes that were announced by the Department for Business Energy and Industrial Strategy (BEIS) with short notice and guidance that was still being developed as these urgent schemes went live. Internal Audit has been involved in the design of schemes and then in the review and assessment of proposed reliefs and payments to minimise the risks of fraud or error. This required substantial effort with up to 8 members of the team involved at the peak of this programme of work. The combination of counter fraud investigation skills, financial skills and data analysis were critical in providing assurance to management and leadership that planned payments were valid, accurate and paid in accordance with the requirements of each of these complex schemes. Over the last 12 months over £150m of reliefs and grants have been processed with each of these having been validated by Internal Audit prior to payment.
- 2.5. This programme of work continues with BEIS requiring all authorities to provide formal assurance over post payment checks and reporting any identified fraud or error. It will continue throughout at least the first six months of 2021/22. This work has resulted in c100 cases for investigation by the Internal Audit team where applications have been linked to organised fraud, false documents, false representations or other factors that cause the eligibility of applicants to be doubted. Work is ongoing to refer cases to law enforcement agencies and for local prosecution.
- 2.6. As well as grants to business the service has played a key role in the winter relief support to Manchester children, in particular through the half term voucher schemes in December 2020 and February 2021. Using experience from the audit of schools and core financial systems, Internal Audit supported the Director of Education in the design and delivery of a scheme for the provision of supermarket vouchers. This included the maintenance and control of stock records, issue of vouchers to schools and other settings and the oversight of deliveries that were made through agreement with the Council's security contractor MITIE as part of their social value contribution to the City. This has resulted in £1m of vouchers safely delivered and has been so successful that the Director has asked for further help to run the same

scheme for April half term.

- 2.7. The service has also had to adapt to working from home with access to the office being limited to essential activities for the majority of 2020/21. The team have had to rapidly adapt to remote working, undertaking audit testing using different techniques and utilising technology and have had to remain acutely aware of the pressures the pandemic has placed on clients delivering critical services to residents. The team were early adopters of MS365 and are using this extensively and continue to train auditors to optimise and exploit the full potential of this platform to support collaborative working, the monitoring of performance through the allocation and completion of tasks and through virtual meetings.
- 2.8. Whilst focusing on this significant, direct covid related work the Internal Audit Team stated to pick up formal audit work from September including assurance over contracts and commissioning, ICT, school audits and fraud prosecutions. All of these have had to be done largely remotely so the team has developed different ways to engage with audit clients using online platforms.
- 2.9. The Internal Audit Service has also been impacted both by covid-related sickness absence as well as the need to support parents to care for primary age children during school closures and as a result of home schooling. This has led to new ways of working flexibility and the service will look to retain what has worked well as part of a post covid operating model.
- 2.10. Internal Audit teams in local authorities across England have faced very similar challenges to that of the team in Manchester. From calls with the North West Chief Audit Executives Group, Core Cities Group and the CIPFA Special Interest Group, the demands experienced in Manchester have been felt across all teams and continue to be so. Whilst we are aware from networks such as the Institute of Internal Auditors (IIA) that some private sector audit staff have been furloughed during the pandemic, many of those who remained in work also stepped in to support safety, risk or other functions in the same way that the team in Manchester have done.
- 2.11. Whilst the pandemic has impacted the ability to deliver the formal schedule of work set out in the original Annual Audit Plan, this does not mean that it is not possible for Internal Audit to provide assurance over systems of governance, risk management and internal control; and in so doing deliver an annual audit opinion. Most local authority CAEs that comprise the North West, Core Cities and CIPFA networks consider that an annual opinion can still be provided to their leadership and Audit Committees alongside a description of how this opinion has been reached. This is also the position in Manchester, where the 2020/21 opinion will be shared with Strategic Management Team and Audit Committee in April 2021.

3. Internal Audit Strategy

- 3.1. The Internal Audit Plan is informed by the Internal Audit Strategy and this remains the case for 2021/22. The Strategy confirms the organisational

approach to internal audit assurance and is the framework used to develop the plan and the associated skills and resourcing requirements for the delivery of an effective audit function.

- 3.2. This Strategy aligns with the Public Sector Internal Audit Standards (PSIAS) which define the nature, purpose and principles of Internal Audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. PSIAS set out the ethical, attribute and performance standards for an effective Internal Audit service but do not define in detail how these are to be applied in practice. They do form the basis for how Internal Audit across Manchester City Council is defined and delivered and the Service is required to undertake an annual review of compliance and is subject to an External Quality Assessment at least every five years. The last review was performed by Liverpool City Council as part of an arrangement across Core Cities and demonstrated the service was largely compliant with all aspects of the PSIAS. The Service undertook the EQA review at Glasgow City Council and was able to consider their good practice elements to incorporate in the Manchester approach.
- 3.3. Agreements are being finalised for a the next EQA to take place with Manchester likely to be assessed by Sheffield City Council and to review the audit service in Birmingham. It is expected that this will be undertaken in late 2021/22. The service is also working with CIPFA and the LGA to build on the good practice in place and develop a best in class internal audit service in a post covid-19 environment. Manchester have worked with the LGA to inform their thinking on best practice and have supported them in the development and delivery of Audit Committee training and guidance.
- 3.4. The Standards are reflected in an audit manual that confirms how the service operates and the approach taken to provide assurance over Council systems of governance, risk management and internal control. The manual was informed by a programme of work across Manchester City Council and Bolton Council facilitated by ‘Risk AI Consulting’ in 2017; with focus on lean auditing techniques and the establishment of a common audit approach.
- 3.5. This approach remains valid and supports both quality and the effectiveness of the audit approach but there are other priority areas that the service is developing. These have arisen in response to:
- organisational change including the Future Shape of the Council programme including the refocusing of the role of the Core.
 - increases in the complexity and scale of assurance requirements; from within the Council and partners, funders and Government
 - the prevalence of data and the opportunities presented by technology and analytics to support assurance assessment, planning and reporting
 - the benefits of a more agile and lean assurance approach as highlighted during the response to the pandemic

- From these and having considered good Internal Audit practice through the North West, Core Cities, CIPFA, IIA and Local Government Association networks the following areas are planned to be a key focus for continuous service development and are being used to inform the future operating model for Internal Audit in Manchester.

4. Organisational Change and Partnerships

4.1. The Council is facing significant change during 2021/22. As well as needing to implement the agreed programme of c£50m budget cuts and address the budget gap from 2022/23 onwards the Council is facing a series of major changes on top of the pandemic recovery planning and business as usual activity. Some of the major changes being implemented during 2021/22 are listed below:

- 116 full time equivalents from the Corporate Core will leave by 31 March 2021. There will not be the capacity to sustain all the support currently provided and a planned approach to delivering the change is required. The Council's main enterprise resource planning and finance system (SAP) that provides the finance, payroll, HROD and procurement functionality is at end of life and a new solution will need to be procured with work needing to start on this now. This is a major change programme but also an opportunity to modernise and automate how the Council works. For the customer facing services major changes are also planned, including the implementation of the new Customer Service Offer which is currently underway and the replacement of the Council's Customer Relationship Management system and associated improvements to how we interact with residents.
- The Council's Housing Arms Length Management Organisation (ALMO) is coming back in house at the end of July 2021. As well as the transfer of the housing functions, to deliver the maximum benefits, the delivery of the support functions, including Internal Audit, will then need to be integrated into those provided by the Council.
- 2021/22 is the transition year for the move to the new Integrated Care System (changes outlined in the recent White Paper). This will mean significant changes for how the Greater Manchester arrangements and local NHS Clinical Commissioning Groups operate. Plans in Manchester are well advanced, including the 'supercharging' of the Manchester Local Care Organisation (MLCO) and a new Section 75 agreement with Manchester Foundation Trust to enable the better provision of integrated community-based health and social care. This will have a significant impact on the services within the Council.

4.2. All the above heavily interact with each other. In order to manage this in an effective way a comprehensive programme of organisational change over the next two years will focus on how the Council and key partners can deliver the services required to support the best outcomes for residents and businesses in our City. The proposed approach is being reported to March Executive as part of the Future Shape of the Council report. The work comprises six workstreams. The changes that arise from these will be a

focus of planned audit assurance and advisory work but will also inform how the Service operates as illustrated below.

Digitally Integrated Council	Digital integration focuses on the technology offer to support residents and how data can be better used by services to aid decision making and improve outcomes. Internal Audit have included digital development and as part of a refreshed audit needs assessment and assurance map being developed with ICT but will also seek to capitalise on the benefits of the use of data in the planning and delivery of audit assurance.
Purposeful and Effective Corporate Core	This is a key workstream for Internal Audit and links into the current service review which is focused on effectiveness and ensuring the service is aligned and skilled to meet current and future demands. There will be aspects of internal audit where a leaner approach may be appropriate and where further efficiency can be obtained as set out below.
Embedded Place Based Working	In supporting the approach to embed neighbourhood working across the Council and with partners, Internal Audit will need to be able to provide assurance over governance and risk management arrangements and this will require the service to ensure a clear neighbourhood focus in audit planning.
New Model for Housing	The Northwards Housing ALMO will be brought back in house from July 2021. The ALMO currently appoints its own Internal Auditors and whilst an arrangement will be retained to support the transition to new governance and service arrangements, the Internal Audit Service will need to support the future assurance needs of these housing functions as part of its future operating model. Work is currently progressing with the Northwards Interim Director of Finance and senior officers in Strategic Housing to assess, plan and deliver on these requirements.
Joined Up Health and Social Care	The Manchester Partnership Board has agreed that the MLCO will be the primary delivery vehicle to reduce health inequalities and improve the health and wellbeing of the people of Manchester. This will include the 'supercharging' of the MLCO and an increased level of integration. This will require further development of the partnership approach to Internal Audit across the system with clear lines of assurance planning and reporting to ensure that the

	Council and partners receive appropriate levels of confidence over governance, risk and control arrangements in place. Internal Audit are involved in the planning for how a more integrated, efficient and effective approach to assurance could be developed. In this we are also reflecting good practice and the experience of colleagues across Greater Manchester and the Core Cities. This work will also be informed by changes proposed as part of the Health and Care White Paper to enhance integration across the NHS and with partners.
Organisational Culture and Behaviours	The Internal Audit Service has embraced the Council's approach to behaviours and cultural change that is integral to OurManchester and OurPeople. The service will have a key advisory role in the development of frameworks for accountability and future ways of working and will need to ensure that this is modelled through the approach within the Service. This includes further focus across the Service on workforce development; effective ways of working; equality diversity and inclusion; and the alignment of resources to key priorities.

- 4.3. Internal Audit input will be required to help inform key aspects of the Future Council work and the Service will also need to provide independent assurance to key stakeholders including SMT and the Audit Committee as to the effectiveness of the programme over the next two years. The Service structure and approach is being developed to ensure that Internal Audit provision aligns with the design principles for the Core and for the Council and can respond to future advisory and assurance needs.
- 4.4. The design principles for the Core include reviewing the purpose and role of support services to ensure they are focused on what matters most and are as effective as possible. For Internal Audit this includes a renewed focus on the core role of the function and based on good practice and guidance set out by CIPFA and the IIA this is to:
- **Promote** good practice in governance, risk and control at all levels through active engagement of key stakeholders
 - Provide independent **assurance** to managers, Directors, SMT, Audit Committee and organisational stakeholders including the external auditor; through a mix of risk, system, compliance and probity audits and assurance reviews.
 - Provide **advisory** support and engage proactively in developments that impact governance and control arrangements to ensure that appropriate consideration is given to the management of key risks and ensure the upfront design of appropriate controls in new systems and processes.

- Assure and where appropriate deliver **counter fraud** strategies and associated programmes of work to manage organisational exposure to the risks of fraud, corruption and irregularity
- Provide **capacity** to enable staff within the service to actively engage in key programmes of organisational change and improvement at Council, Directorate or Service level. This will include the Future Shape programme as well as work in relation to the Race Review and Ways of Working programmes.

4.5. As part of this renewed focus the service needs to stop doing some of the work that places demand on audit resources but is outside the core role of the function. To do this successfully will mean changes in ways of working within the team and with managers and this is proposed to include:

- Increased focus on management's risk and assurance arrangements and accountability frameworks; and assessing the results of these and line two assurance sources (finance, HR, legal, performance etc) alongside the independent assurance work of Internal Audit.
- Quickly referring risks or issues identified through audit or investigation work to management for action rather than Internal Audit taking too much responsibility for the design or brokerage of solutions.
- Supporting managers to undertake effective reviews into potential errors, issues and irregularities, enabling Internal Audit to focus resources on the investigation of high risk or complex cases.
- Closing audit recommendations that are overdue by more than 12 months and reporting these as risks in the annual audit opinion and annual governance statement and for inclusion in risk registers.

5. Innovation in Approach

5.1. It is clear that the approach to Internal Audit delivery will need to adapt and change. As well as changes from within the Council, planned changes in the approach to Internal Audit have been informed by comparison with best practice models and guidance available through the Institute of Internal Auditors and CIPFA as well as through engagement in North West, Core Cities and national CIPFA peer group meetings. They have also been a result of considering how the service has operating during the pandemic and the current and future assurance needs of the Council and key stakeholders.

5.2. The key areas of focus for the development of the service from 2021/22 include:

- More investment in detailed assurance mapping and reporting;
- Data driven audit and use of data analytics / whole population testing
- Agile and lean approaches to audit planning and delivery; and
- Enhanced collaborative working.

Assurance Mapping and Reporting

5.3. Given the scale of potential assurance needs arising from increased partnership working and the need to provide assurance across complex systems, work on assurance mapping and reporting will be enhanced. To

date this work has been focused on to procurement and commissioning activities but in 2021/22 will be extended to include health and care, ICT and financial systems. This approach has several benefits that include:

- confidence to stakeholders that key risks and objectives are being properly managed;
- confidence that the risk assurance jigsaw is joined up – or not – and enable any gaps or duplications to be addressed;
- alignment with management accountability to manage business objectives and key business risks;
- informing Directorate Leadership Team, SMT and Audit Committee reviews of assurance; and
- informing the most effective way to allocate the resources of internal audit

- 5.4. This work has been started in Manchester through the development assurance maps based on CIPFA / SOLACE standards, Association of Local Authority Risk Management standards and organisation service areas / themes. The approach reflects good practice guidance from CIPFA and the IIA and arrangements we have seen operate well in other organisations including in the commercial sector and across South Yorkshire Police.

Data Driven / Informed Audit

- 5.5. The use of data and analytics to provide assurance has been a part of the audit approach in Manchester in recent years. This has tended to focus on analysis of financial data including payroll and payments. During covid19 the team demonstrated their capacity in this area using data matching routines to check for duplicated or erroneous applications for business rates relief and covid support grants and this was fundamental in assuring the payments process.
- 5.6. Internal Audit also coordinate the Council's engagement in the National Fraud Initiative which takes data submitted from across the public services and generates matches from across different sets for review. This is used to identify potential fraud or error within systems and processes but is reactive and can be very time consuming. In addition to this the Service have commissioned third parties to review payments data with the last exercise returning sums of over £400k to the Council in respect of historic VAT coding errors, duplicated payments and unclaimed credit notes. There are other data review commissions currently being explored by the Service that could also support this type of cost recovery and assurance approach.
- 5.7. Some larger authorities including Birmingham City Council have well developed systems to pool and interrogate data to inform both audit and management assurance processes and this is an area for further focus in Manchester. It is part of the Future Council programme and an area of good practice promoted by the IIA, CIPFA and used widely across the commercial sector. Internal Audit priorities for 2021/22 include work to further develop this capability with the support of ICT and the Performance, Research and Intelligence Service.

Lean and Agile Audit

- 5.8. Whilst the delivery of the original audit plan for 2020/21 has been significantly impaired by the impact of Covid19, there has been a need to provide shorter, more focused audit advice and assurance to services responding to the pandemic. Alongside good practice guidance on lean and agile audit techniques this learning will be applied to the audit approach in Manchester.
- 5.9. Elements of this approach to be developed will be based on a focused review of the audit approach by the Service Technical Improvement Group across Manchester and Bolton and are likely to include:
- Adaptation of the scrum and sprint project management styles to the planning and delivery of audit work to maintain focus on timely completion and the flexing of scope during audits to address key risks
 - Reporting early where there is a good level of confidence that controls are operating effectively or conversely where it evident that the design or operation of controls is inadequate
 - Focused engagement in organisational projects / programmes with clarity as to the nature of the audit role (delivery, advisory or assurance).
 - Use of technology, including the opportunities presented by the Microsoft 365 platform, in the planning, delivery and reporting of audit work.
 - Streamlined reporting to management and other stakeholders including Audit Committee, focusing on what matters most and with clear recommendations for action.

Collaboration

- 5.10. Whilst the Service is not planning to integrate structures with the audit team at Bolton Council, the scale of collaboration and sharing will increase from 2021/22 with the two audit teams utilising technology and online meeting capabilities to co-deliver work. This will include assurance mapping and focus on areas such as health and care where both Councils have started work to deepen the scale of integration. Both audit plans will highlight these areas of common risk where collaboration will take place.
- 5.11. With the increased integration of health and care and the ‘supercharging’ of the MLCO the partnership work already being done with risk and internal audit leads across the health system will deepen and this will be a key area of focus in 2021.

Audit Planning

- 5.12. There is no requirement in the PSIAS to set an audit plan for a defined period. Traditionally plans were set for 3-5 years with a focus on the current year but given the scale of change imposing the public services in recent years most audit teams have focused on working to a one-year plan. From Core Cities and the CIPFA Special Interest Group meetings it is evident that many audit services are focused on ensuring that audit plans are more flexible and short term to be able to respond to emergent risk. This was clearly a requirement in response to covid19. The Manchester Audit Strategy already refers to the need for the plan to be flexible but for 2021/22 the approach will be for a ‘6+6’ plan, with a formal mid-year review of the strategy and plan with SMT and Audit Committee. This will enable areas of focus in the first six months to be

scoped in more detail and for the second six months proposals to be reviewed at the end of August to ensure they remain valid and focused on current, key risks.

- 5.13. Alongside this approach to planning, the Service will develop Directorate level assurance assessments to ensure that there is a programme of coverage of all key areas of governance, risk and control over time.

6. Structure and Capacity

- 6.1. The impact of the Covid19 pandemic and the implications of planned organisational change within the Council and across partnerships have provided the opportunity to consider the changes required in the future to deliver an internal audit structure and approach that is fit for purpose, adheres to the PSIAS but also supports and invests in continuous improvement, innovation and best practice.
- 6.2. Action has also been taken to build and strengthen current capacity within the internal audit service and in areas where the Service utilises external expertise to support the in-house team, including technology assurance. Work is underway in mapping audit and assurance across the ICT environment and three staff start in the Service on six-month placements in March 2021 to support the delivery of audit work across contracts and commissioning; schools; health and care; and core services.
- 6.3. The team have been engaged on the longer term changes required and the Service will now deliver a focused plan to move to formal consultation on the new structure and job roles from 1 April with plans to conclude by end of June.
- 6.4. The structure is designed to respond to the changes proposed to the audit strategy and approach. The key principles have been shared and developed with the team and with stakeholders and include:
- Delaying of management reporting lines with greater emphasis on lean frameworks for quality assurance, accountability and timely reporting to stakeholders.
 - Alignment of audit portfolios with key functions: Place (Growth and Development; Neighbourhoods), People (Health and Care; Children's Services; Schools), Core (Corporate Resources and Chief Executive functions); and Counter Fraud and Irregularity.
 - Increased emphasis on the mapping and assessment of other sources of assurance; and the use of data to inform audit and assurance work.
 - Investment in skills and capabilities through the service workforce development plan to support priority areas including assurance over ICT; data; and health and care.
 - Increased collaboration with the Bolton Council audit team with reciprocal arrangements for planning and for the delivery of audit work in areas of common risk.

- 6.5. These principles and the proposed structure have also been informed by the work with CIPFA and through discussion with peer groups like the NW Audit Group and Chief Audit Executives (UK Core Cities).

7. Conclusion

- 7.1. This report updates on the internal audit activity carried out during 2020/21, the planned future strategy for audit within the Council and the areas of planned service change in terms of innovation and structure.
- 7.2. The results of Internal Audit activity and other sources of assurance from 2020/21 will be used to inform the Head of Internal Audit and Risk Management Annual Opinion to be presented to Audit Committee in April 2021.
- 7.3. This report also provides context for the Annual Plan which is presented to Audit Committee for comment and approval. The plan covers a wide range of audit areas with greater emphasis on the first six months of the year. This is to ensure the team have clear direction in the work to be delivered from April 2021 and to enable areas of potential work for the second six months of the year to be reviewed against key risks emerging in the year and the revised structure to be implemented from July 2021.
- 7.4. The combination of organisational change, learning from auditing during the pandemic and a review of internal audit good practice present opportunities for the Manchester's Internal Audit Service. These include a refresh of service structure and the further development of the audit strategy and approach. These will be reflected in the Quality Assurance Improvement Programme (QAIP) and a revised Internal Audit Strategy to be presented to Audit Committee alongside a mid year review of the Annual Audit Plan in September 2021.

8. Recommendations

- 8.1. Audit Committee are asked to comment on the proposals for development of the Manchester Internal Audit Service and to receive further updates and reports in April 2021 (Annual Opinion) and September 2021 (Updated Internal Audit Strategy, QAIP and Annual Audit Plan).