

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee 28 September 2021

**Subject:** Review of Effectiveness of Internal Audit

**Report of:** Deputy Chief Executive and City Treasurer  
Head of Internal Audit and Risk Management

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**Summary**

The Council conducts an annual review of the effectiveness of its internal audit function as part of its governance assurance processes. This process is designed to provide assurance to the Deputy Chief Executive and City Treasurer and the Audit Committee over the role, function and performance of the internal audit service.

The review of effectiveness was due to be presented to Audit Committee in April 2021, however this was delayed due to the pandemic. Progress and actions contained within this report appendices are accurate up to September 2021.

**Recommendations**

Audit Committee is requested to:

- Consider the level of assurance provided by the review of effectiveness and progress on management improvement actions from the Quality Assurance Improvement Plan (QAIP) and planned actions for 2021/22 (Appendix One)
- Agree the proposal for an External Audit Assessment of the Internal Audit Service through a Core Cities peer review programme.
- Review and confirm the Audit Committee Terms of Reference (Appendix Two).
- Review and approve the Internal Audit Charter (Appendix Three)

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**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.

- Internal Audit Plan 2021/22
- Review of Effectiveness of Internal Audit 2020/21
- Internal Audit Development Update Audit Committee 16 March 2021
- Assurance Progress reports to Audit Committee during 2020/21.

## **1 Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) apply to internal audit services within all public service organisations. They set out the ethics requirements and a range of professional and performance standards that should be expected from Internal Audit. Compliance with the standards should be assessed internally and subject to periodic, independent external quality assessment.
- 1.2 PSIAS requires that Internal Audit services set out their quality assurance arrangements in the form of a Quality Assurance Improvement Plan (QAIP) and define the role, responsibilities and authority of the service in the form of an Internal Audit Charter, which includes an explanation of the way in which the function will comply with the PSIAS. The monitoring of performance against the QAIP and adherence to the Charter must be assessed and reported to the Audit Committee on an annual basis.
- 1.3 At appendix 3 this report includes a copy of the current Audit Committee terms of reference. As part of the review of the QAIP and the Charter, Internal Audit have also reviewed the terms of reference in line with good practice and examples from other local authorities. From this review there are no changes proposed.

## **2 Context**

- 2.1 The PSIAS sets out the requirement for a QAIP:  
*“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity which must include both internal and external assessments.”*
- 2.2 The QAIP sets out how this process will work.
- 2.3 The Audit Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the PSIAS and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). It also meets the PSIAS requirement for Internal Audit’s risk-based plan to incorporate or link to a strategic or high-level statement.
- 2.4 It is the responsibility of the Manchester City Council Head of Internal Audit and Risk Management, as Chief Audit Executive, to ensure that the Internal Audit Charter is reviewed each year and ensure that it remains relevant to both the Internal Audit Service and the organisation as a whole.
- 2.5 The Manchester City Council Internal Audit Strategy outlines how internal audit activities will be undertaken within the Council and defines the key principles and approach to be used. It further enhances the processes that form the basis for the annual opinion which informs the Council’s Annual Governance Statement and seeks to maximise collaborative working

opportunities with other assurance providers such as external auditors, external assessment teams and regulatory compliance teams.

- 2.6 The Audit Committee paper on Service Development in March 2021 outlined proposals for development in line with the Internal Audit Strategy, and detailed actions taken to continually improve service provision whilst supporting the Council's response to the Covid19 pandemic. As the pandemic related demand lessens the service is better able to focus more capacity on business-as-usual activities and delivery of the approved audit plan.
- 2.7 A key focus in the QAIP is the finalisation and implementation of an updated service structure and associated resource requirements to complete this year's audit plan and afford a strong platform to meet current and future assurance requirements.
- 2.6 The Committee last approved the QAIP, Charter and Internal Audit Strategy in April 2020.

### **3 Structure**

- 3.1 Whilst the delivery of the original audit plan for 2020/21 and plans for 2021/22 have 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 is being applied to the future audit approach in Manchester.
- 3.2 The Internal Audit team is led by the Deputy Head of Internal Audit and Risk Management (DHARM) and supported by Lead Auditors with assigned responsibilities for dedicated portfolios, enabling close engagement and interaction with clients. These portfolios are as follows:
- Adults Services; Children's Services; and Education and Skills
  - Neighbourhood Services; and Strategic Development
  - Corporate Core; and Data, Information and Systems
  - Procurement, Commissioning and Contracts
  - Counter Fraud and Irregularity
- 3.3 The Head and Deputy Head of Internal Audit and Risk Management also lead the internal audit service for Bolton Council. This affords opportunity for knowledge and capacity sharing across teams and the co-design of audit processes and techniques. Some work in year was carried out with Bolton and this arrangement continued to support the development of collaboration opportunities across teams and sharing of knowledge, skills and experience in specific areas including schools, data protection, counter fraud, procurement contract management and ICT. This arrangement has been beneficial in the last 18 months in enabling sharing of intelligence and assurance approaches in respect of pandemic response and in particular in the design, control and testing of systems for the distribution of support grants.

- 3.4 Elements of this approach that continue to be developed and refined across Manchester and Bolton are likely to include:
- adaptation of '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; and
  - reporting to management and other stakeholders including Audit Committee, focusing on what matters most and with clear recommendations for action.

## **4 Audit Planning and Priorities**

- 4.1 To manage the pressures and uncertainty presented by the pandemic the annual audit plan proposed a formal mid-year review of the strategy and plan with Strategic Management Team (SMT) and Audit Committee. This enabled known areas of focus in the first six months to be scoped in more detail and proposals for the second six months to be reviewed further to ensure they remained relevant and focused on key risks. This has been an ongoing process throughout the year to date with some requests for support being prioritised and added to the plan to respond to urgent or complex needs. A full review will be completed at the end of September and presented to SMT and the October meeting of Audit Committee for comment and approval. The majority audit specific work performed in the first quarter of 2021/22 focused on completing work in progress and starting reviews that were deferred from the previous year.
- 4.2 At this point, Internal Audit have finalised all work carried forward from 2020/21 that was scheduled for completion and made good progress on starting audits on the 2021/22 plan, with approximately 45% of planned work underway. Further detail on progress will be provided in the Audit Committee assurance update report in October.
- 4.3 Involvement in assuring Covid business grants continues and is likely to require some audit resource to remain focused in this area through to December 2021 for the completion of post payment assurance and counter fraud work notified to the Department for Business, Energy and Industrial Strategy (BEIS).
- 4.4 In terms of other work commitments, we have been liaising closely with colleagues in housing to formulate a new audit plan for the Housing Operations (formerly Northwards) service and proposals for work in this area will be included in the mid-year plan review. The plan will also reflect c25 day

of audit commitments to provide a service to the Manchester Civic Quarter Heat Network companies.

- 4.5 We continue to provide advice and assurance to Health and Social Care colleagues; with 2021/22 being the transition year for the move to the new Integrated Care System; meaning 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 and on governance structures and the subsequent level of assurance required.

## **5 Resources**

- 5.1 The current team have a deep and diverse mix of sector experience and qualifications to support audit, assurance and counter fraud activity. Our skillset includes two Qualified Internal Audit Leaders (QIAL), four qualified accountants (CCAB), and eight qualified internal auditors (MIIA or CIIA). One auditor is studying to be a Certified Information System Auditor (CISA) and one is a certified Information Security professional via the Institute for Information Security Practitioners (IISP).
- 5.2 For Counter Fraud work, four members of the team are additionally qualified in investigative techniques (ACFS and ACFT) and one has had Government Intelligence Analysis training. The team also have three auditors who are proficient in using data analytics and data interrogation software (IDEA). We welcomed two auditors back from maternity leave in 2021 who are now recommencing their professional studies.
- 5.3 All staff undertake in year training in a range of professional skills as part of the service learning and development plan, complete continuing professional development and were registered members of relevant professional bodies. Staff qualifications and training is monitored through an audit skills matrix and regularly reviewed.
- 5.4 An overdue service restructure will complement the design principles of the Core under the Future Shape work programme, and comply with best practice and guidance set out by CIPFA and the IIA, and focus on:
- 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.
- 5.5 The scale of reactive work and competing priorities has continued to hamper progress but work has progressed with the design of new roles and these will be assessed against job evaluation criteria by the HR&OD Service in October to enable formal staff and trades union consultation in November and the process of matching and appointments to commence in December.

- 5.6 In advance of finalising the new service structure, Internal Audit took on three internal secondees from other Core services in April 2021 on a six-month term. All three have made a hugely positive contribution to the team and have received a varied and rewarding work experience. Following a short introductory audit training course, they were deployed into teams effectively; utilising their existing Council knowledge and skills, with each making valuable contributions to audit reviews. One of these officers has since left the Council to undertake full time study and one is on maternity leave. The other will remain in the service for a further six months pending completion of the new structure.
- 5.7 We also supplement our in-house IT audit service provision with support from Salford City Council IT Audit Services. This arrangement affords a balance between local Manchester knowledge and skills; with the ability to access more specialist and technical skills that we would struggle to sustain internally.

## **6 QAIP**

- 6.1 The QAIP is informed by feedback from within the team and from clients, from the Service Technical Improvement Group, from EQA findings, from good practice sources and from and assessment by audit management. Consistent with the PSIAS, the Audit Committee should consider the outcomes of the QAIP and actions planned to address for areas for development. This self-assessment, development plan and status of improvement actions is attached at appendix 1. In summary actions are underway or planned to strengthen the following areas:
- Improve performance measures for the service
  - Ensure the audit strategy confirms how formal audits of risk management arrangements can be completed and audit independence maintained.
  - Completion of service restructure
  - Implement refreshed customer satisfaction assessment process
  - Refresh quarterly assurance reports for senior managers
  - Enhance process to ensure that retention and destruction processes are complied with for hard copy and electronic records
  - Develop approach and system/s for document recording, retention, time recording and performance reporting
  - Confirm an internal quality assurance review process supporting new processes and to inform assessment of PSIAS conformance.
- 6.2 As part of the QAIP, the Internal Audit Service should be externally reviewed at last every 5 years. It is for the Council to determine how this review be conducted but the scope and outcome should be overseen by the S151 officer and Audit Committee.
- 6.3 For Manchester City Council, the previously agreed approach was to engage in a programme of peer reviews with Core Cities. In the last cycle of reviews Manchester was reviewed by the Head of Audit and team from Liverpool City Council and we undertook the review of Glasgow. For the current cycle it is proposed that Manchester will undertake the review of Birmingham City Council in early 2022 and be reviewed by the team from Sheffield in Spring

2022. Audit Committee agreement is requested to progress this approach and to receive a further report on the timing and scope of this review in due course.

## **7 Recommendation**

7.1 Audit Committee is requested to:

- Consider the level of assurance provided by the review of effectiveness and progress on management improvement actions from the Quality Assurance Improvement Plan (QAIP) and planned actions for 2021/22 (Appendix One)
- Agree the proposal for an External Audit Assessment of the Internal Audit Service through a Core Cities peer review programme.
- Review and confirm the Audit Committee Terms of Reference (Appendix Two).
- Review and approve the Internal Audit Charter (Appendix Three)

Appendix One – Quality Assurance Improvement Plan  
Appendix Two – Audit Committee Terms of Reference  
Appendix Three – Internal Audit Charter

## **Appendix 1 - Quality Assurance Improvement Plan 2021/22**

### **Background**

The Public Sector Internal Audit Standards (PSIAS) revised 2017 state that the Chief Audit Executive (CAE) must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. For Manchester City Council the CAE role is discharged by the Head of Audit and Risk Management (HARM).

The QAIP is designed to ensure that the Council's internal audit service performs its work in accordance with its Charter in conformance with PSIAS and the Code of Ethics. It is also used to assess the efficiency and effectiveness of the internal audit service.

The key elements of the QAIP are to confirm:

- Audit activities are planned; resourced and delivered.
- Mechanisms ensure compliance with the PSIAS.
- Internal Audit adds value and provide quality outcomes in its work, supporting improvement to the Council's business operations
- Regular internal assessment of performance and quality is undertaken.
- An external assessment of performance is commissioned at least every five years.
- Reporting arrangements for the QAIP and service improvement plans.
- How non-conformances with requirements should be addressed.

The Internal Audit service has several assurance processes in place to enable effective development and delivery of plans and identify areas for continuous improvement. The core principles for service delivery and improvement are also adopted for Counter Fraud activities though some of the specific operational requirements are different.

## Quality Assurance Framework

This is the framework under which the Internal Audit Service carries out regular assessment of its conformance with PSIAS standards as required in the Quality Assurance Improvement Plan. Outcomes of assessments are reported to Audit Committee and consolidated in the Annual Review of the Effectiveness of Internal Audit. Details are provided in relevant templates for audit activities, reporting and post audit review.

Activity	Frequency	Role	Purpose
<p><b>Audit Activities are planned, monitored and delivered</b> – via Annual Audit Plan and monitoring reviews</p>	<p>Plan - Annually</p> <p>Delivery - Quarterly Progress reports to Strategic Management Team (SMT) and AC, with updates to Directorate Leadership Teams (DLTs).</p> <p>Individual Audits monitored against assignment plans every fortnight, through audit management meetings.</p>	<p>Auditors, Leads, Deputy HARM, with HARM</p> <p>SMT, S151 and Audit Committee input and approval</p> <p>Audit leads, DHARM, HARM, SMT, S151 and Audit Committee scrutiny, review and challenge.</p> <p>Auditors, Lead Auditors, DHARM and HARM</p> <p><b>Action 1</b></p>	<p>Risk based audit assignment planning undertaken and agreed for coming year and work assigned accordingly. Plan is flexible to reflect changes to organisational risk.</p> <p>Confirm risk-based assurance and consultancy plan has been authorised and is resourced accordingly.</p> <p>Confirm audit plan is being delivered and reported in line with expectations and priorities set for the coming period.</p> <p>Performance management of Lead Auditors and audit teams.</p>
<p><b>Internal Audit Service Resourcing</b> – via Annual Audit Plan,</p>	<p>Annually</p> <p>Reviewed quarterly</p>	<p>DHARM and HARM *</p>	<p>An analysis of the resources available to the audit service including skills and professional</p>

Activity	Frequency	Role	Purpose
<p>monitoring reviews, About You process and workforce – performance and development plan.</p>	<p>Assessed for each audit</p>	<p>HARM, S151 and Audit Committee</p> <p>DHARM and Leads</p> <p><b>Action 1</b></p>	<p>qualifications to enable an assessment of resourcing.</p> <p>Informs learning and development planning to meet any skills gaps and succession planning, captured via the Workforce Development Plan and summarised in the Audit Skills Matrix.</p>
<p><b>Audit Activities are managed and delivered</b> – via regular management supervisions, quality assurance and sample check via audit checklist.</p>	<p>Ongoing for all assignments</p> <p>Monthly sample checks carried out for quality assurance.</p> <p>QA of draft and final reports by DHARM and HARM, if limited or no assurance opinion.</p>	<p>Auditor and Lead Auditor.</p> <p>DHARM with summary reporting to HARM.</p>	<p>Ensures that activities are managed in line with PSIAS and audit manual.</p> <p>Remedial actions to be determined where necessary to address areas of concern.</p> <p>To assist with effective client engagement and interaction / co-operation with IA.</p>
<p><b>Post Audit Evaluation</b> – via post audit reviews and use of PAE template</p>	<p>All audits: when reports are finalised, and action plans agreed. More consistency needed.</p>	<p>Auditor and Lead Auditor</p> <p><b>Action 6</b></p>	<p>To assist with continuous improvement and consistency across the service; specifically, against time, quality and cost.</p>
<p><b>Customer Feedback – engagement /</b></p>	<p>All reviews - post audit</p>	<p>Auditor to issue to senior client/s</p>	<p>Feedback on value added and audit experience sought from</p>

Activity	Frequency	Role	Purpose
satisfaction questionnaires	Note – <i>During pandemic audit output was reduced Customer feedback will resume Sept 2021.</i>	<b>Actions 3 &amp; 4</b>	customers to inform improvement plan, capture positive feedback, strengthen client relationship.
<p><b>Audit Impact –</b> via recommendation Monitoring schedule</p> <p>Exploring options for greater use of data analytics.</p>	<p>At least quarterly with DMT, Director engagement and through contact with recommendation owners.</p> <p>Quarterly position statements to AC with analysis of age profile and summary of recs implemented.</p> <p>Working with external providers and inhouse teams to increase capability / use of data analytics.</p>	<p>Lead Auditors. Escalation to DHARM and HARM if necessary.</p> <p>S151, Strategic Directors and Executive Member.</p> <p>Attendance at Audit Committee</p> <p><b>Action 5</b></p>	<p>All high risk critical, major and significant recommendations monitored to evaluate progress and implementation. Follow up activities carried out in line with risk-based audit plans. Exceptions reported to SMT and Audit Committee.</p> <p>Where recommendation implementation exceeds due date by 6 months Strategic Directors and Executive Members are alerted to the ongoing exposure to risk and at 9 months are required to attend Audit Committee to provide an update on actions being taking to address risks. Recommendations will only be '<i>referred back</i>' to the business following AC approval (18 months past the due date)</p>
<b>Annual IA Performance Reviews</b>	Annually	DHARM / HARM with Directors and Service Leads	Feedback on the performance of the audit service and assessment of value added to the control and

Activity	Frequency	Role	Purpose
<b>with key customers -</b> via structured feedback	Formal process to recommence Sept / Oct 2021	HARM /Audit Committee Chair	governance of services and delivery of objectives.
<b>Complaints and Compliments</b> via corporate complaints process or internal feedback	Throughout the year	Reported to any member of audit team. Overseen by DHARM and HARM.  Escalated as required to S151 and Audit Committee.  <b>Action 11</b>	Positive feedback shared with the relevant auditors and lead auditors. Complaints logged and investigated to ensure appropriate responses are provided. Reported in annual review of IA performance as appropriate.
<b>IA Self-Assessment against PSIAS and Service Improvement Plans –</b> via annual service self-assessment against the PSIAS standards	Annually	DHARM and HARM Approved by S151  Review by Audit Committee	To establish areas of strength and for improvement.  Reported to the Audit Committee.
<b>External Quality Assessment Against PSIAS –</b> via external review	Every five years	External sourced  HARM, S151 and AC.	To confirm the IA conformance with PSIAS

## Internal Assessment

In accordance with PSIAS Standard 1300, internal assessments are undertaken through both ongoing and periodic reviews.

## On-going Reviews

Continual assessments will be conducted through:

- Management supervision of all engagements.
- Structured, documented review of working papers and draft reports by Internal Audit management.
- Agreed standard audit methodology used for each engagement to ensure consistency, quality and compliance with appropriate planning, fieldwork and reporting standards.
- Review of reports, recommendation criticality and balance of audit opinions, including by the HARM or DHARM based on risk.
- Feedback actively sought from audit clients.
- Monitoring and reporting of KPIs.
- Internal Post Audit Evaluations to assess learning from audit activities.
- About You / Insights performance reviews and team meetings held for review of work and wider contextual issues.
- Regular briefings / training sessions attended by all members of the Internal Audit team.

### **Periodic Reviews**

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the PSIAS Definition of Internal Auditing, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Periodic assessments will be conducted through:

- Quarterly performance and assurance updates to SMT and Audit Committee.
- Risk assessment and planning with stakeholders in line with the Audit Strategy to inform development of the annual audit plan.
- Annual review of the Effectiveness of Internal Audit including review of compliance against PISAS and against the QAIP reported to the S151 officer and to Audit Committee.
- Annual appraisal of the DHARM and HARM in line with 'Senior Management objectives review'.
- Quarterly 'About You / Insights' – 1:2:1 competency-based performance / development discussions. Reviewed by DHARM.
- Skills and competency assessment informing service workforce development and learning and development plans

Any significant areas of non-compliance with the PSIAS will be reported in the Annual Review of Effectiveness.

### **External Assessments**

External Quality Assessment (EQA) to be undertaken in 2022 will appraise and provide an opinion on the function of the internal audit service in conformance with the PSIAS definition of Internal Auditing and the Code of Ethics. This will include recommendations for improvement where appropriate.

The review will be carried out at least every five years and in accordance with PSIAS the scope will be agreed with the S151 officer and Audit Committee and outcomes reported to them. The EQA of the service was last reported to Audit Committee following a review by Liverpool City Council in March 2017.

Any recommendations made will be considered as part of QAIP and the review of effectiveness and actions taken to address them reported back to the S151 officer and Audit Committee along with the opinion so that action can be monitored.

### Development Actions

The key service development actions in support of the QAIP and current status are follows:

<b>Area for Development (source)</b>	<b>Improvement Action</b>	<b>Status</b>
1. Performance measures for the service could be improved ( <i>Self-Assessment and EQA</i> )	<p>A management decisions was taken in 2020 to cease use of time recording / completion of detailed time recording as this was not effective and was not leading to effective information to support decision making. It led to undue focus on inputs rather than outputs and dleiverables.</p> <p>The main key performance indicator (KPI) regards service delivery will focus on the achievement of planned delivery dates (not days charged to jobs). A new monitoring tool in MS365 Excel / Teams has been developed and is continually monitored by DHARM.</p> <p>Reports from 2021/22 Internal Audit plan delivery will be produced and discussed HARM and reviewed to drive improvement.</p>	<p>Part Complete</p> <p>Commenced April 2021.</p>

Area for Development (source)	Improvement Action	Status
	Additional KPI to be monitored and reported more consistently is days elapsed with a view to developing further measures to take forward into 2022/23 and integrated into Audit Committee reports.	
2. A formal audit of risk management arrangements has not been completed in the last three years (EQA)	This audit was completed in response to the EQA but the audit strategy does need to revisit how independent assurance on risk management can be programmed into ongoing audit planning. This may involve requests for peer reviews from GM or Core Cities colleagues; or a commissioned regular review.	Part Complete
3. Service Structure Review	Carry out a review and implementation of new service structure for the Internal Audit Service.	To be finalised December 2021
4. Implement refreshed Customer Satisfaction Assessment process. ( <i>self-assessment</i> )	<p>Redesign and relaunch a mechanism to capture client feedback specifically on audit reviews and more broadly at a service level.</p> <p>The latter will be formalised via a series of discussions with Directors and report leads with DHARM / HARM – and summarised in a report to Audit Committee.</p> <p>This is in addition to HARM discussions with Audit Committee Chair and Members regarding the Committee work programme.</p>	New feedback mechanism from September 2021
5. Refresh quarterly assurance update report for senior managers at Direacaote Leadership Teams (DLTs). ( <i>self-assessment</i> )	Confirm consistent report format for quarterly reporting in line with new Key Performance Indicators and progress reporting – this was impacted by focus on covid19 response from audit and DLTs	Re-establish consistency of approach with DLTs from October 2021

<b>Area for Development (source)</b>	<b>Improvement Action</b>	<b>Status</b>
6. Enhance process to ensure that retention and destruction processes are complied with for hard copy and electronic records (self-assessment)	As part of audit closure and post audit evaluation (at issue of final report): Confirm compliance with new checklist actions on audits which include requirement for post audit review and clear-down of documents held.	Post audit evaluations to recommence from October 2021
7. Agree approach and system/s for document recording, retention, time recording and performance reporting - audit management system.	From April 2021 – new systems developed using Teams / Excel to monitor the plan and track implementation of recommendations. This ensures continuity from the previous Google based systems. Refresh the IA Manual to ensure clarity and consistency regards document retention and file structures.	Operational April 2021  Refresh by October 2021
8. Confirm an internal quality assurance review process supporting new processes and to inform assessment of PSIAS conformance.	Assurance principles and processes set out in the internal audit manual to be applied for 2021/22 audits and to be completed at mid year review with team. This links to post audit evaluation process to be revised and refreshed by December 2021.	December 2021
9. Recording of Continuing Professional Development (CPD) for all IA staff (EQA) and Skills Assessments	A revised, strengths based <i>About You / Insights</i> performance discussion template is now being used. This supports individuals learning and development and aligns to service business plans and objectives. DHARM discussion with HARM, Leads with DHARM, and auditors have 1:2:1 with their Lead Auditors.  Mandated learning / completion is included in these discussions, as are Code of Conduct and Declarations of Interest. Central record of the latter is maintained / refreshed, and a Skills Matrix has been developed to capture professional development, qualifications, competencies and experience across the Unit – and align this to Audit assignments where possible. Mandated Council learning is included to monitor completion.	Complete  Complete  Complete

Area for Development (source)	Improvement Action	Status
	<p>The requirement to record all CPD is included in “<i>Quality, Ethics and Standards</i>” section of the revised audit approach and all staff are regularly reminded of personal responsibility to comply with relevant professional body requirement for keeping adequate CPD records and this is reviewed at About You / Insight sessions in line with Council policy.</p> <p>These actions address Standards, Proficiency and Continuing Professional Development.</p>	
<p>10. Review, update and implement a streamlined audit approach (including assurance maps and broader view of governance and assurance via existing reporting to committees, boards etc.)</p>	<p>Common audit approach (Manchester and Bolton) is complete, using standard templates and audit planning principles. Ongoing review and refresh via Technical Improvement Group chaired by DHARM</p> <p>Continue to develop and refine Assurance Mapping across common areas in inform the audit plan and to be able to rely on other sources of assurance for corporate reporting i.e. not just based on internal audit work.</p>	<p>Complete</p>
<p>11. Ensure Executive Members are provided with Audit Reports (<i>Audit Committee request</i>)</p>	<p>Executive summaries of reports now appended to Audit Committee reporting and final reports are shared with Executive Members.</p>	<p>Complete</p>

### Review of the QAIP

The QAIP will be reviewed and updated appropriately as required following any changes to the standards or to the Internal Audit services own procedures. This review will be carried out at least annually and confirmed with the S151 officer and reported to Audit Committee as a result.

## **APPENDIX 2 - Audit Committee Terms of Reference**

### **Purpose**

The main purpose of the Committee is to obtain assurance over the Council's corporate governance and risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.

### **Governance**

Review the Council's corporate governance arrangements including consideration of the Code of Corporate Governance.

Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Review the governance and assurance arrangements for significant partnerships or collaborations, including the Register of Significant Partnerships

To consider the effectiveness of the Council's risk management arrangements including reviewing the Risk Management Strategy and Policy; and the Corporate Risk Register.

Review the assessment of fraud risks and potential harm to the Council from fraud and corruption including oversight of key anti-fraud policies and monitoring of the counter-fraud strategy.

To make recommendations to the Chief Finance Officer and Monitoring Officer in respect of Part 5 of the Council's Constitution (Financial Regulations).

### **Financial Reporting**

Review and approval of the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts and monitor the Council's response to individual issues of concern identified.

Approve the Council's Statement of Accounts and associated governance and accounting policy documents in accordance with the Accounts and Audit Regulations 2015.

## **External Audit**

Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).

Consider the external auditor's annual audit plan, annual audit letter, relevant reports and the report to those charged with governance.

Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

## **Internal Audit**

Oversee and provide assurance to the Council on the provision of an effective internal audit service and the main issues arising from Internal Audit work.

Undertake the duties of the Board as set out in Public Sector Internal Audit Standards (PSIAS) as follows:

- Approve the Internal Audit Charter.
- Approve the risk-based internal audit plan, including internal audit's resource requirements, including any significant changes, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- Receive confirmation from the Head of Audit and Risk Management regarding the organisational independence of the internal audit activity and make appropriate enquiries of management and the Head of Audit and Risk Management to determine whether there are inappropriate scope or resource limitations.
- Provide free and unfettered access to the Audit Committee Chair for the Head of Audit and Risk Management, including the opportunity for a private meeting with the Committee.
- Consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Audit and Risk Management. To approve and periodically review safeguards to limit such impairments.
- Receive the results of the Quality Assurance and Improvement Plan annually and the external quality assessment of internal audit that takes place at least once every five years.
- Receive communications from the Head of Audit and Risk Management on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. To include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Committee.

- Consider the Head of Audit and Risk Management's annual opinion and report.
- Seek assurance on the adequacy of management response to internal audit advice, findings and recommendations in the form of implementation of agreed action plans

### **Treasury Management**

To monitor the performance of the Treasury Management function including:

- approval of / amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations; and
- approving the selection of external service providers and agreeing terms of appointment.

## **APPENDIX 3 - Internal Audit Charter 2021**

### **1. Introduction**

This charter establishes the framework within which Manchester City Council's Internal Audit Service operates to best serve the Council and to meet its professional obligations under applicable professional standards.

The charter defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

It will be subject to periodic review by the Head of Audit and Risk Management (as the Chief Audit Executive) and presented to the Council's Senior Management and Audit Committee for approval.

Where the Internal Audit Service provides the internal audit function for other organisations external to the Council the purpose, authority and responsibility of internal audit activity for those organisations is set out in separate charters for those organisations.

### **2. Relevant regulations and interpretation**

The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').

"Internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." Regulation 5. (1) Accounts and Audit Regulations 2015

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

The Council Internal Audit Service operates in accordance with this mandatory definition, code, standards and advice.

Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its Statement on the Role of the Chief Financial

Officer in Local Government CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the director of financial resources to ensure an effective internal audit function is resourced and maintained.

### **3. Definitions**

Both the Global Institute of Internal Auditors and PSIAS set out the following definition of internal auditing:

*"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."*

Global Institute of Internal Auditors, and  
Public Sector Internal Audit Standards, 2017

The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognise that these terms need to be interpreted in the context of the Council's own governance arrangements.

PSIAS define the board as:

*"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."*

Public Sector Internal Audit Standards, 2017

Within Manchester City Council the board is defined as the Audit Committee and senior management is defined as the Council's Senior Management Team ("SMT").

### **4. Responsibilities**

The Regulations set out that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk. The scope of internal audit's work includes:

- Systems, processes, policies, plans and procedures;
- Use and safeguarding of resources and assets, including data;
- Governance and risk management processes;
- Commissioning and procurement;
- Projects and programmes; and
- Counter Fraud, including investigation of allegations of fraud and corruption.

It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS make clear that the provision of this assurance is

internal audit's primary role and that this requires the Head of Audit and Risk Management to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.

This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all Council functions and services and all of its activities.

The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However, the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.

Accountability for responses to Internal Audit advice and recommendations for action lies with senior management who either accept and implement advice or accept the risks associated with inaction. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

The Head of Audit and Risk Management will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with PSIAS and the results of the quality assurance and improvement programme (QAIP).

The Internal Audit Service's responsibilities are set out in PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

## **5. Independence and objectivity**

The PSIAS define independence as “freedom from conditions that threaten the ability of the Internal Audit Service to carry out its responsibilities in an unbiased manner”. To assist Internal Audit to carry out the role and constructively challenge senior managers of the Council, the Head of Audit and Risk Management holds a sufficiently senior position.

The Internal Audit Service remains independent of the Council's other functions and, apart from its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.

The Internal Audit Service's work programme and priorities are determined in consultation with 'management' and 'the Board' but remain a decision for the Head

of Audit and Risk Management. The Head of Audit and Risk Management has direct access to and freedom to report in his own name and without fear or favour. He has opportunity to meet with the Chair of the Audit Committee at any time.

The independence of the Head of Audit and Risk Management is further safeguarded by ensuring that his remuneration and performance assessment are not inappropriately influenced by those subject to audit.

All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The Head of Audit and Risk Management makes an annual declaration that the internal audit function is operationally independent.

## **6. Reporting lines and relationships**

The Head of Audit and Risk Management reports the performance and outcomes of audit work to 'management' and 'the board' and reports organisationally to the Deputy Chief Executive and City Treasurer.

The Head of Audit and Risk Management has access to all 'management' including the Monitoring Officer and Chief Executive.

The Head of Audit and Risk Management has regular access to the chair of the Audit Committee and reports to their meetings as set out in the Committee's Terms of Reference.

SMT and the Audit Committee are responsible for approving the annual audit plan.

The Head of Audit and Risk Management, the Internal Audit Service as a whole, and the Council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.

The Internal Audit Service and the external auditor liaise on the planning and outcomes of respective audit work to share assurance opinions and avoid the duplication of work.

## **7. Access to information**

The Internal Audit Service has the right of unrestricted and direct access to the Council's records (however held), assets, premises and officers. When entering into partnership arrangements with external organisations the Council ensures that the same rights of audit access apply to partners' records, assets, premises and officers. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.

Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the

use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Council's legitimate and ethical objectives.

## **8. Internal Audit Resources**

The Council has taken the strategic decision to provide its internal audit service largely in-house and is committed to providing a service that meets the best quality standards. The Head of Audit and Risk Management and Council has decided that, to meet the requirement that assignments are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. All such work remains under the direction and authority of the Head of Audit and Risk Management

The City Treasurer ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the Head of Audit and Risk Management or the Audit Committee considers that the level of audit resources in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.

Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the Council.

The Council performance and development process is applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

## **9. Quality Assurance and Improvement**

The Head of Audit and Risk Management operates a quality assurance and improvement programme (QAIP) that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments.

The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS are reported annually to SMT and the Audit Committee.

## **10. Non-audit work: Investigations and counter-fraud services**

PSIAS recognise that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.

The Internal Audit Service manages the Council's whistle-blowing arrangements, including provision of a helpline and, where appropriate investigates instances of

suspected or actual fraud, corruption or impropriety. It also facilitates participation in the National Fraud Initiative, which matches data from Council information systems with information held by other bodies to identify potentially fraudulent activity.

The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

The Head of Audit and Risk Management should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for his opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

#### **11. Non-audit Work: Risk, Insurance and Health and Safety**

The Head of Audit and Risk Management is responsible for the leadership and management of the Council's Risk and Resilience, Insurance and Claims; and Health and Safety Services. To avoid actual, potential or perceived conflicts of interest, planned audit activity in these areas is led by the Deputy Head of Audit and Risk Management and reported to the Deputy Chief Executive and City Treasurer, SMT and Audit Committee without any oversight or influence by the Head of Audit and Risk Management.