

**Manchester City Council
Report for Decision**

Report to: Audit Committee – 14 June 2022

Subject: Internal Audit External Quality Assessment

Report of: Head of Audit and Risk Management

Summary

In line with the requirements of the Public Sector Internal Audit Standard a Quality Assurance and Improvement Programme (QAIP) for internal Audit is in place and is reported to Audit Committee annually. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to demonstrate compliance with the standard. External assessments are required to be undertaken on a five-year cycle. Our next external assessment is due for completion during 2022.

It is for individual local authorities to determine the approach to be taken for the External Quality Assessment and having considered a number of options it is proposed that this be undertaken on a Core Cities peer review basis.

Recommendations

Audit Committee is recommended to approve that the next External Quality Assessment be undertaken on a peer review basis as part of the Core Cities group.

Wards Affected: ALL

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

None

Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
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None

Manchester Strategy outcomes	Summary of how this report aligns to the OMS/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The Council is required to maintain and effective Internal Audit Service in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The Internal Audit Service is an integral part of the Council's governance arrangements and provides assurance over the systems of governance, risk management and internal control. This contributes to being a well-run Council and indirectly to the achievement of organisational objectives and the OurManchester Strategy.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue: None

Financial Consequences – Capital: None

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Background documents (available for public inspection):

The documents listed overleaf 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
- Review of Effectiveness of Internal Audit - Audit Committee September 2021

1.0 Introduction

- 1.1 This report sets out the background and approach proposed for the External Quality Assessment of the Council's Internal Audit Service in 2022.

2.0 Background

- 2.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its governance, risk management, and control arrangements. The requirements of an effective system of Internal Audit are laid out within the Public Sector Internal Audit Standards. The Standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced the Chartered Institute of Public Finance and Accountancy' (CIPFA) Code of Practice for Internal Audit in Local Government.
- 2.2 In line with the requirements of the Public Sector Internal Audit Standard a Quality Assurance and Improvement Programme (QAIP) has been developed and is reported to Audit Committee annually. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to demonstrate compliance with the standard. External assessments are required to be undertaken on a five year cycle. The next external assessment is due for completion during 2022.
- 2.3 Following consideration of other options and discussion with Core City colleagues it is proposed that our next Public Sector Internal Audit Standards review be undertaken on a Core Cities peer review basis. This was the approach taken for the last review when Manchester was reviewed by Liverpool City Council and when Manchester reviewed the Internal Audit arrangements at Glasgow City Council.

3.0 Assessment of Options

- 3.1 Members of the Core Cities Chief Audit Executives group have elected to adopt an internal self-assessment approach validated by an external peer reviewer.
- 3.2 This follows consideration of the benefits of commissioned reviews that can be provided by professional bodies and in particular the Chartered Institute of Public Finance (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). From research led by Birmingham City Council it was confirmed that the costs of external assessments would be approximately £15k-£30k depending on scope. It is also possible to procure reviews from professional services firms and it is agreed that costs of such would be comparable to the fees charged by CIPFA and the CIIA.
- 3.3 Alternatively Manchester could opt into a North West peer review process. It was determined that given the scale of the Core Cities compared to some of the North West councils that Manchester and Liverpool would prefer to opt into

the Core Cities group.

- 3.4 To ensure independence the peer review approach does not permit reciprocal reviews. In 2022 it is planned that Leeds City Council will review Manchester and the review team from Manchester will undertake the assessment for Birmingham City Council.
- 3.5 There are wider benefits of collaborative working from the planned approach. Review teams from comparator organisations are well versed in sector risks and issues; in the opportunities and challenges for local authority Internal Audit teams; and the application of professional knowledge and understanding of local authority services. The approach allows for sharing of good practice both as a service being reviewed and also for those undertaking the reviews.
- 3.6 Each authority determines appropriate members of their teams to conduct the external assessment, taking into account qualifications and relevant experience. The reviews and quality of reports are overseen by the relevant Chief Audit Executive.

4.0 Scope and Approach

- 4.1 It is proposed that the review be undertaken from September 2022. It will involve the following key elements by the review team:
 - Review of a PSIAS self-assessment provided by the Head of Audit and Risk Management.
 - Review of supporting evidence
 - Interviews with key stakeholders
 - Interviews with members of the internal audit team
 - Observation of an Audit Committee meeting
- 4.2 The review will result in a written report to be provided to the Head of Audit and Risk Management and to the Deputy Chief Executive and City Treasurer as the review 'sponsor'. This will include an assessment of compliance with the Standards and recommendations in any areas for development. The report and resulting action plan will be presented to the Audit Committee.
- 4.3 The precise details of dates, documents required and interviewees are to be agreed with the review team. It is expected that interviewees would include the Chair of the Audit Committee, Statutory Council Officers, a selection of Strategic Management Team officers, key clients and officers from the Internal Audit Service. These will be determined by the review team.
- 4.4 A template scope to be adopted for the review is attached as appendix 1.

