

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee – 13 June 2023

**Subject:** Internal Audit Plan 2023/24

**Report of:** Head of Internal Audit and Risk Management

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**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 2023/24 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 2023/24.

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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. 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 CIPFA Local Government Application Note
- Internal Audit Plan 2022/23 (Audit Committee April 2022)
- Internal Audit Annual Opinion Report 2021/22 (Audit Committee April 2022)
- Internal Audit Assurance Reports (Audit Committee 2022/23)
- Internal Audit Strategy and Resources (Audit Committee March 2021) and Review of Effectiveness (September 2022)

## **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 approve them. For local authorities the "board" is defined as the Strategic Management Team (SMT) and the Audit Committee.
- 1.2. The plan for 2023/24 is based on PSIAS and the Internal Audit Strategy. It is based on the revised structure for the service that was implemented from April 2023 and on expected resources for the year ahead. The plan is designed to be flexible and responsive to emerging risks and the assurance and advisory needs of SMT, Executive and Audit Committee. It also allows for time for the new service structure to be embedded and for staff across the service to engage in development activity referenced in the Internal Audit Strategy and Resources and Review of Effectiveness reports to Audit Committee which includes:
  - 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 with Bolton Council and other relevant partners.
- 1.3. This report sets out the audit plan for 2023/24 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.

## **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 remain applicable and underpin the 2023/24 audit 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 plan 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 by 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.
- 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.

2.4. Following consultation with officers across the Council, audit intelligence and risk horizon scanning, the audit plan has been developed to respond to key assurance requirements across the organisation.

2.5. In line with Internal Audit Standards the audit planning process considers risks to independence and how these are managed as follows:

- If the assessment of risk used to develop the audit plan indicates areas for focus that are within the line management responsibilities of the Head of Audit and Risk Management then responsibility for planning, review and reporting passes to the Deputy. In cases where the Head and Deputy Head have a conflict (for example risk management) then the Audit and Assurance Manager will report directly to the Accountable Officer for the audit and may opt to utilise independent, external assurance providers for this work.
- All staff are required to declare conflicts of interest annually and at any time in the planning or delivery of audit work. This ensures that any risks of actual or perceived conflict arising from links to related parties are addressed. This is addressed in the planning and allocation of work so that staff are not involved in audits where they have a familial or other

close link. Auditors are restricted in auditing schools where they act as a Governor or areas in the Council where a close family member works.

### **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 2023/24 some of the key context in which the plan has been set includes:
  - ambitions of the Our Manchester Strategy, Corporate Plan and Business Plans; for Manchester to be a Thriving and Sustainable; Highly Skilled; Progressive and Equitable; Liveable and Low Carbon; and Connected City.
  - ensuring financial challenges and related budget savings can be met whilst also delivering priorities set out in the Medium-Term Financial Strategy and annual budget reports.
  - ongoing pressure caused by inflation, fuel and heating costs and prices more generally. This has an ongoing impact on the costs of Council capital and revenue contracts with an impact on services, projects and partners including the voluntary and community sector; and of course residents.
  - delivery of major capital projects including the Factory, Our Town Hall and a range of ICT enabled programmes including the Resident and Business Digital Experience Programme (RBDXP).
  - changes and challenges in the external audit environment with increased focus on estimates and valuations and the need to ensure high standards of confidence in transparency and financial accountability across the public sector; but resulting in delays in the audit of the annual accounts.
  - organisational change including the further development of health and care partnerships and the integrated care system at Greater Manchester level with the Council Chief Executive appointed as the Place Based Lead for Manchester.
  - sustaining substantial improvement in mental health services with Greater Manchester Mental Health Trust, continuing delivery of the Better Outcomes Better Lives programme and supporting financial resilience of the adult social care system, to help improve the integration and quality of services to residents.
  - developing the Housing Services offer to tenants and address issues that have been identified through service review and confirmed to the Housing Regulator. This includes a programme of transformation and improvement to build assurance that the Council complies with consumer and safety standards and is delivering improved services and solutions to residents.
  - using technology to drive down service costs, make the best use of data and intelligence within the Council and with partners, maintain a digital first

approach and improve the quality of service provision. Ensuring that existing systems and processes are developed to address known issues of data quality that have impacted the ability to make accurate, timely payments and support effective decision making in 2022/23.

- maintaining a high state of alert, awareness and investment in preventative solutions to respond to the risks of data loss, service disruption and cyber-attack.
- supporting workforce capacity and capability including leadership and management development, performance management and activities to further progress equality, inclusion and diversity across the workforce and in the design and delivery of services and support to residents.

### **Timeframe for the Plan**

- 3.3. The plan sets out the high priority work for the next 12 months and contingency set aside to ensure appropriate ad hoc or unforeseen audit activity can be accommodated, and includes the reviews confirmed to Audit Committee in the annual opinion, as having been deferred for completion in 2023/24.
- 3.4. As in previous years, we have assessed audit work based on risk and through discussions with key clients, and accounting for work carried forward from 2022/23 where the business need for assurance remains. Progress of the plan and significant changes to coverage will be reported to the Audit Committee throughout the year.

### **Structure of the Plan**

- 3.5. The plan includes a range of audit activities which contribute to the assurance framework and to the Head of Audit and Risk Management annual opinion. The relative planned split between the types of activity is shown below.

<b>Type of Assurance and Approximate Split</b>		<b>Examples</b>
Audit Opinion Reviews	35%	System Audits. Compliance Audits. Risk Based Audits. Follow Up Audits. Governance and Strategy Audits. Grant Certifications.
Audit Assurance Reviews	20%	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.
Audit Contingency	10%	Resource reserved for ad hoc requests regarding immediate risk or to support any additional schemes that may be required in the year.

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.
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- 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 in implementation of high priority recommendations from audit activity will be reported to SMT and Audit Committee and escalation action taken as required where there are delays in improving process control or efficiency. The status of recommendations is provided through updates to this committee. Any significant audit recommendation that is more than six months overdue is escalated to the Executive Member and Strategic Director for review and onto Audit Committee if it remains outstanding at nine months. No recommendations are 'referred back' to the business to manage without Audit Committee approval, and the action owner is requested to attend committee in person and provide reasons for delay.

#### **4. Resourcing of the Plan**

- 4.1. The plan is based on available resource at April 2023.
- 4.2. The current plan of total resources to be allocated to the direct management and delivery of Council audit and counter fraud work for 2023/24 is c1,500 days. This is less than the 1,850 days planned for 2022/23.
- 4.3. This reflects time set aside to embed the new structure and for the team to engage in service and organisational change activity and in focused workforce development activity linked to the service business and workforce development plan, team priorities and the agreed audit strategy. With so much time focused on covid response and recovery as well as other demands for audit support, the service has had limited opportunity over recent years to develop and embed new ways of working and innovation.
- 4.4. It also reflects one member of staff on maternity leave, one member of staff moving to a new role in the Council from June 2023 and a small amount of time to support external work for schools, academies and Bolton Council.
- 4.5. Following service change there three vacant posts in the audit structure as well as a vacant post of the Deputy Head of Service. Actions are underway to recruit and appoint to these positions and some other vacancies across the

wider Audit and Risk Management Service. In the interim the service as sought to recruit agency staff to support the in-house team but this has proven unsuccessful so management are exploring the use of a third party provider to focus on support in the delivery of school-related audit work.

## **5. Planned Areas of Audit Work**

- 5.1. The planned areas of audit activity, after considering the review of the risks and the major changes the Council is facing, are set out in Appendix 1.
- 5.2. The plan shows links to the Council's Corporate Plan Priorities and the most recent SMT review of the Corporate Risk Register. It provides a very high-level summary of the likely focus of audit and assurance work that will be developed further as part of detailed assignment planning in each of these areas.
- 5.3. The audit plan is not designed to cover all corporate plan priorities or corporate risks; or cover them in equal measure. Analysis of the planned areas of coverage demonstrates that there is a breadth of coverage and that a high proportion of focus across the plan contributes to corporate plan priority 7 (Well Managed Council). This is to be expected as the assessment of strategies, governance, systems and processes is integral to almost every audit and assignment. Coverage of priorities 1 and 2 in respect of young people and health cared for people also featured strongly across the plan. Corporate risks 2 (Council finances) and 7 (the achievement of positive health outcomes for adults and children) also score highly in terms of focus.
- 5.4. This is a high-level assessment and individual audits may incorporate a focus on specific risk areas if this is agreed as part of detailed assignment planning but other than risk 9 (economy of the City) every risk is subject to focus of at least one audit this year. Areas that may be subject to less direct audit coverage will be priority areas for the service to assess other sources of assurance so that these can be incorporated in update reporting to SMT and the Audit Committee.

Corporate Plan		#
1	Young People	14
2	Healthy, Cared-for People	11
3	Housing	8
4	Neighbourhoods	8
5	Connections	3
6	Growth Benefits Everyone	1
7	Well-Managed Council	64
8	Zero Carbon Manchester	2

Risk Register		#
1	Resident Finances	2
2	Council Finances	33
3	City Wide Climate Change	1
4	ICT Resilience and Cyber	6
5	Housing	8
6	Workforce	3
7	Adult and Child Health	21
8	Digital and ICT strategy	6
9	Economy of the City	0
10	Council Climate Change Action	2
11	Supply chain	8
12	Safeguarding	3
13	EDI	2
14	Data loss	7

5.5. Based on Internal Audit's risk assessment there are some key areas of focus on the year that are included in the plan and these include:

- Block allocations of time with detailed scope to be determined following further detailed risk assessment and ongoing management engagement. These are focused on health and care including mental health, finance systems and ICT technical assurance.
- Projects for mapping assurance across complex systems that include financial systems, ICT and schools.
- Audits of core management arrangements to ensure an ongoing audit assessment that core systems and processes in neighbourhood and resident focused services are operating as intended.
- Audits of procurement, contracts and payments across a range of services including focus on areas of risk in adults and children's highlighted in audit work in 2022/23.
- Reviews in areas of inherent risk such as cyber security or where there are risks relating to statutory or regulatory frameworks such as in housing.

5.6. The plan provides a breadth of coverage and areas of focus in order to support a rounded annual audit opinion. In line with the Internal Audit Strategy, reports to Audit Committee in 2023/24 will also reference and reflect the outcomes of other sources of assurance and the findings of key reports to other Committees. The Service will consider and report on the outcome of key processes such as budget setting, the work of external audit and the production of the annual governance statement. This holistic approach to assurance will inform in-year and annual audit reporting to Directorate Leadership Teams, SMT and Audit Committee.

## 6. Recommendations

6.1. Audit Committee is requested to review and approve the Annual Internal Audit Plan for 2023/24.