

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee - 10 December 2019

**Subject:** Internal Audit Horizon Scanning

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

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**Summary**

In accordance with Public Sector Internal Audit Standards, Strategic Management Team and Audit Committee approve the Annual Internal Audit Plan. The plan is designed to provide assurance over the Council's systems of governance, risk management and internal control and is based on an assessment of risk and assurance needs.

Audit Committee requested a horizon scanning report to set out areas of potential risk and focus for 2020/21 and future years' internal audit planning. The basis for this is set out in the report and attached presentation.

**Recommendations**

Audit Committee is asked to consider and comment on the report.

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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:

- Internal Audit Plan 2019/20 (Audit Committee April 2019)
- Minutes of Audit Committee (February 2019)

## **1 Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) set out the standards for internal audit and have been adopted by the Service in Manchester. All internal audit assurance and consultancy services fall within the Definition of Internal Audit. The PSIAS include the need for “risk based plans” to be developed for internal audit and for plans to receive review and approval from senior management and the “board”. For local authorities the “board” is defined as the Audit Committee.
- 1.2 The audit plan is developed following consultation and includes requests for audit work from key stakeholders where appropriate. The content of the plan is based on risk assessment and assurance considerations including the outcomes of previous audit work, other sources of assurance and requests for support and advice.
- 1.3 The plan for 2020/21 will be developed between January and March, shared and discussed with strategic directors and directorate leadership teams and presented to Strategic Management Team and Audit Committee for approval.
- 1.4 In developing the annual plan Internal Audit consider a range of risks, issues and areas of potential focus. In February 2019 Audit Committee asked that a report be brought forward to present areas of consideration for discussion.
- 1.5 The attached presentation (appendix one) highlights areas of audit focus in 2018/19 and 2019/20 and sets out areas for consideration and comment by Audit Committee.

## **2 Basis for Horizon Scanning Considerations**

- 2.1 In developing a horizon scanning document Internal Audit have considered a number of sources that include:
  - Service Budget and Business Plans 2019/20
  - Reports to Executive, Scrutiny and other committees.
  - Our Corporate Plan Priorities
  - Corporate and Business Risk Registers
  - Discussion of audit planning priorities from local authorities across Greater Manchester, North West and Core Cities
  - Ongoing dialogue with Chief Officers and Directorate Leadership Teams
  - Mazars Horizon Scanning 2019/20 Report
  - Other public reports and websites (LGA, LGIU, Institute of Risk Management, CIPFA, Institute of Internal Auditors)
  - Issues arising from audit work in 2019/20 and cumulative audit knowledge and experience.
- 2.2 The horizon scanning has been done in the context of a complex and challenging environment. The key context considerations are set out in the opening of the presentation at appendix one and include:
  - Growth of Collaboration, Integration and Partnerships

- Austerity, Finance and Funding Change and Challenges
- Political, Legislative and Regulatory Change and Uncertainty
- Development of Technology
- Demographic Change, Population Growth and Public Expectations
- National and International Risks and Challenges

- 2.3 The horizon used for the consideration of potential areas of focus is around three years into the future. There may be longer-term considerations but the presentation has focused on risks, issues, innovations and change that are possible, rather than wholly speculative.
- 2.4 The presentation is not intended to describe all possible risks and issues or a full list of all functions of the Council. It is focused on areas where Internal Audit consider there may be a need for assurance, not necessarily through audit work but through wider internal and external sources of assurance. Whilst some of these areas are likely to be considered for inclusion in the audit plan for 2020/21 there are others, such as the use of robotics and integrated processing, that represent longer term considerations.

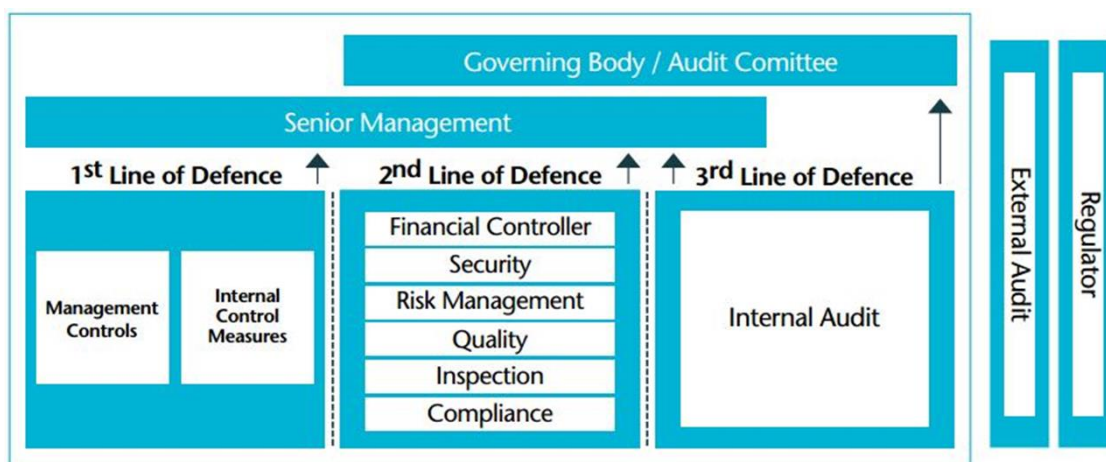
### **3 Development of the Audit Plan**

- 3.1 At this stage, Internal Audit have not consulted with directorate leadership teams or other stakeholders on areas of potential inclusion in the annual plan. That process will start in January 2020. Key stakeholders for consultation will include:
- Chief Officers and Directorate Leadership Teams
  - Statutory Officers
  - Professional leads for finance, HROD, legal, performance, ICT, procurement and policy.
  - External Audit
  - Health partners via Manchester Health and Care Commissioning and Manchester Local Care Organisation.
  - Discussion with GM, North West and Core Cities audit colleagues.
- 3.2 Having engaged with stakeholders Internal Audit will undertake an assessment of risk and need to prioritise areas for inclusion in the plan. This will be based on scoring against the following criteria:

|                             |                        |
|-----------------------------|------------------------|
| Strategic Objectives        | Key Partnerships       |
| Safety and Welfare          | Finance and Resources  |
| Corporate Risk              | Key Service Fulfilment |
| Organisational Change       | Statutory Duty         |
| Known Control or Fraud Risk | Mandatory Requirement  |

- 3.3 A key consideration in the audit planning process is consideration of alternative sources of assurance. Internal Audit is often described as the “third

lien of defence” as illustrated below and there are a range of other internal and external mechanisms that may be relied upon in informing the overall audit plan and annual audit opinion.



3.4 For Manchester City Council these other sources of assurance include:

- Work of the External Auditor on core financial systems and controls
- Work of other internal auditors
- Oversight from Scrutiny and Other Committees
- Reports from funders or other delivery partners
- Peer reviews or national inspections.
- Professional oversight by finance, legal services, HR and procurement as part of systems of internal control
- External inspectors and assessors such as Ofsted for schools and Childrens social care, Care Quality Commission for Adult Social Care and the Cabinet Office (for ICT Public Service Network Accreditation)

3.5 These other sources of assurance are assessed before reliability is assumed. A process of mapping these assurances by Internal Audit is underway and an example of a current assurance map for Procurement, Commissioning and Contracts is included in the attached presentation.

3.6 The most appropriate type of audit work will also be determined during this process. Some areas of proposed focus may be in early stages of development and a developing system audit, focusing on the proposed design of controls may be appropriate. In other areas, a focus on compliance testing may be the most effective approach to confirm that processes or controls are operating as they should. The types of audit work proposed as part of the plan will be:

| Type                     | Examples  |
|--------------------------|---|
| Audit Opinion<br>Reviews | System Audits<br>Compliance Audits<br>Risk Based Audits<br>Governance and Strategy Audits<br>Grants |

|   |  |
|---|--|
| Audit Assurance Reviews                 | Developing Systems Reviews<br>Management Assurance Requests<br>Assurance Assessments                                     |
| Advice, Guidance & Support              | Attendance on working groups and boards<br>Responses to reasonable, relevant management requests for support or guidance |
| Counter Fraud, Probity & Investigations | Proactive counter fraud activities<br>Corporate counter fraud investigations<br>Other counter fraud investigations       |

- 3.7 The final stage of draft plan development is to confirm available resources and proposed scope of work in each area; to ensure the plan is deliverable and to ensure audits focus on defined areas and clear assurance objectives. If scopes cannot be fully defined at that stage then blocks of time may be allocated and released during the year for the delivery of specific audits and assurance reviews.
- 3.8 The draft plan will then be presented to Strategic Management Team and Audit Committee for approval.

#### **4 Recommendations**

- 4.1 Audit Committee is asked to consider and comment on the report.