

**Manchester City Council
Report for Information**

Report to: Audit Committee - 10 March 2020

Subject: Internal Audit Plan 2020/21

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

Summary

Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note from the Chartered Institute for Public Finance and Accountancy. The PSIAS confirm that 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 and is informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

The PSIAS state that “the chief audit executive (Head of Internal Audit and Risk Management) must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management (Senior Management Team) and the board (Audit Committee) for review and approval”.

Recommendations

Members are requested to:

1. Review and approve the Annual Internal Audit Plan for 2020/21; and
 2. Agree to a mid-year plan review and revision report to be presented in October 2020.
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Wards Affected: None

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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.

- Corporate Plan and Corporate Risk Register and Quarterly Assurance Reports 2019-2020

Internal Audit Plan 2020/21

1. Background

- 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 has been 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 and requests for support and advice. Outline audit plans were shared and discussed with strategic directors and directorate management teams in line with business risk assessment and with due consideration of alternative sources of assurance. The purpose of this report is to seek Audit Committee input and subsequent approval for the 2020/21 annual Internal Audit plan.
- 1.3. As a result of an ongoing structure review across the Audit and Risk Management Service and a number of vacancies in the Internal Audit Team, the audit plan for 2020/21 does not currently represent the scale of resources required to deliver a robust assurance over systems of governance, risk management and internal control. Whilst temporary resource is being secured to address some of this gap, active steps are underway to finalise and then implement the service structure and address gaps in a sustainable way. As such the plan presented for approval is focused on a current forecast of likely available resources and will be formally reviewed and revised once staff are in post in the new structure. Audit Committee will be presented with this revised plan for assurance and approval in the year.

2. Basis for the Plan

- 2.1. The PSIAS (section 2000) state that the Head of Internal 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 board”. These principles have been applied in the development of the 2020/21 plan as follows:

A. Annual Internal Audit Opinion (PSIAS 2010)

- Head of Internal Audit and Risk Management forms an annual assurance opinion based on an annual programme of audit work and assurance obtained by other means. 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.
- The current approach is to provide a range of types of audit work which provide for different scope and coverage.

- Advice and guidance is provided to services and partnerships where appropriate based on requests from management and resource is also allocated to support developing systems and a range of emerging projects. There remains a significant focus on this type of work because of the extent and range of transformation and change across the Council and partner organisations and the need to target audit support and engage with stakeholders in a timely way.
- The Head of Internal Audit and Risk Management 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 reaching his annual opinion.
- The plan is flexible and is reviewed and adjusted throughout the year, as necessary, in response to changes in policies, systems, processes, risks and controls across the Council. These changes are communicated to Audit Committee and senior officers.

B. Based on a Risk Assessment (PSIAS 2010.A1)

- The Internal Audit Section works closely with the Council’s Risk and Resilience Team under a single Head of Service and this enables timely sharing of relevant intelligence between teams including an understanding of key directorate and corporate risks. Internal Audit engages with Strategic Directors and Heads of Service and colleagues across the Council to ensure that known and emerging risks are considered in annual audit planning.
- Proposed areas for audit are assessed by Internal Audit against risk criteria. Audits are ranked to determine the level of potential risk and inform decisions on the allocation of work to the annual plan based on the following criteria:

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

- Assignment audit planning considers key risks and the scope of audit work is designed to ensure that local and national issues and risks are addressed.
- The Head of Internal Audit and Risk Management ensures a culture of risk awareness is maintained within the Service so that all members of the team are aware of local, regional and national risks in the performance of their duties.
- Through regular liaison and the sharing of emergent plans with colleagues across the North West, Greater Manchester and the Core Cities, Internal Audit ensures that it is aware of emerging risks in other Councils and considers them as part of audit planning.

C. Informed by Expectations (PSIAS 2010.A2)

- The Internal Audit Service is aligned to service and directorate structures across the Council, ensuring audit teams engage actively with Strategic Directors and their teams.
- The annual audit plan is based on consultation and discussion with these directorate management teams and key officers to ensure it is focused on key risks, core systems and areas where Internal Audit can effectively contribute to the effectiveness and efficiency of governance, risk management and control processes.

3. Annual Planning

3.1. The approach to audit planning in the Council for 2020/21 has been based largely, but not exclusively, on the following:

- Review of corporate, directorate and programme/project risk registers, the draft Annual Governance Statement and Significant Partnership Risk Register.
- Consideration of Executive Member priorities, Our Manchester principles and priorities, Directorate Business Plans and financial plans, including partnership health and social care plans with Manchester Health and Care Commissioning (MHCC) and Manchester Local Care Organisation (MLCO).
- Assessment of the outcomes from audit and investigation work in 2019/20 and earlier years and consideration of alternative sources of assurance.
- Engagement with Strategic Directors, Heads of Services and directorate management teams.
- Liaison with the Council's external auditor and with health internal auditors in respect of MHCC and MLCO.
- Liaison with audit colleagues across the North West, Greater Manchester and the Core Cities.
- Engagement with colleagues across the Core, including Finance, HROD, Legal Services and ICT.
- Engagement with the Risk & Resilience, Insurance & Claims and Health & Safety teams within the Audit and Risk Management Division.

3.2. Progress has been made, in collaboration with Bolton Council, to produce assurance maps based on CIPFA / SOLACE standards, Association of Local Authority Risk Management standards and organisation service areas / themes. These are used to document assurances over systems of governance, risk management and internal control; at corporate, directorate and support service levels. This work will continue to support ongoing audit planning and assurance reporting. The aim of this approach is capture sources of assurance in addition to those provided by internal / external audit; reports to Executive and Scrutiny Committees, reports from consultants, inspectors and regulators. The results of this will be reported to relevant Directorate Management Teams (DMTs), Senior Management Team (SMT) and Audit Committee during the year. This work is well progressed for contracts and procurement and is in progress in respect of ICT, schools and core financial systems.

3.3. Following consultation, including risk horizon scanning, an emergent plan, broken down by themes and specific audits and assurance reviews has been

developed to provide key assurance requirements across the organisation. As noted above, this plan will be formally reviewed and revised following implementation of the new service structure by end of July 2020 and recruitment to vacant posts.

- 3.4. Liaison with senior officers will continue throughout the year to ensure that the risks identified are consistent with their understanding and assessment of assurance and support needs and this is reflective of the first and second lines of assurance within business areas. Any changes required to the audit plan based on a reassessment of risk or alternative sources of assurance will be agreed with management and reported to Audit Committee.

4. Key Characteristics of the Annual Plan

Context

- 4.1. The Internal Audit Plan takes account of the Council's overall business priorities and risks including service improvement programmes and the potential impact of reduced resources on the control environment. The Service has carried out a review of business plans and priorities and horizon scanning to assess known and emerging risks. As partnership working and collaboration within the City and across Greater Manchester continues to evolve the risk landscape changes. This is taken into account so 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. The plan includes areas where the scope of work is not fully defined at the start of the year with some allocation of resource made in blocks. This time will be assigned when specific assurance work is more apparent and can be scoped effectively and will be agreed with management in year.
- 4.2. For 2020/21 this is based on a number of key factors including:
- Budget savings required linked to service improvement programmes and changes in service delivery models.
 - The ongoing governance, risk and control impacts of major changes including the ongoing integration of health and social care services and the associated impact of developments in the Manchester Local Care Organisation (MLCO) and Manchester Health and Care Commissioning (MHCC).
 - The need for flexibility to provide appropriate assurance at various stages of large scale projects including Factory, Our Town Hall and ICT projects; as well as within large scale service improvement, change and development programmes such as Our Transformation, and the Adults Services Improvement Plan.
- 4.3. The resource availability Internal Audit work is finite and there are resource pressures at the start of 2020/21 because of audit vacancies held pending the restructure of the service and recruitment to planned positions. This means that priorities have been identified for the first half of the year based on risk assessment and timing needs. Alternative assurances will be sought where possible and the areas identified in horizon scanning will be considered for prioritisation later in the year.

- 4.4. Periods of change inevitably increase the potential for risks, both positive (opportunities) and negative (threats). Changes in governance, roles and responsibilities for example provides potential for a breakdown in control as well as an opportunity to consider new, more efficient ways of organising systems, processes and deploying people without impacting adversely on control. To reflect this risk the plan includes time for advice and guidance and for developing systems work to offer **support** and **challenge** to officers involved in the development of systems of governance, risk management and internal control.
- 4.5. The pace and scale of change across the Council requires assurance that is **prioritised** and **timely**. The Internal Audit plan provides for this assurance to enable any remedial actions to be taken on a timely basis. As a result there remains a need for short, focused and practical audits and advice. The scope for this work will usually be narrower than a full system or risk based audit, and will provide assurance over the management of specific risks. Agreed audit scopes will be designed to reflect whether the audit will provide an assurance opinion, offer other assurance work or provide advice in line with consultancy principles.
- 4.6. The plan includes time assigned for short (two-day) assurance assessments on topics of key risk or strategic interest where the scope of potential audit work and the additional assurance value this may add is not fully understood. This will enable the Internal Audit service to work with officers to establish the background to and key risks and actions underway in areas of business priority. The intention of this work is that the information and analysis will inform audit planning for the coming year and contribute to overall assurance reporting culminating in the Head of Internal Audit and Risk Management annual opinion.
- 4.7. As a result of the above the Head of Internal Audit and Risk Management considers that Internal Audit's objectives are most appropriately met by delivering a combination of different types of audit and review supported by an assessment of other sources of assurance. Resource is also directed to consultancy and advisory work, where opinions may not be provided but where support will be given to enhance the governance arrangements, management of risk and control environment.

Plan Structure

- 4.8. There are a number of different types of audit activity included in the annual plan. For 2020/21 the plan differentiates between four main types of audit work as follows:

Type of Assurance and Approximate Split for Planning		Examples
Audit Opinion Reviews	50%	System Audits Compliance Audits Risk Based Audits Governance and Strategy Audits Grants

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
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)

- 4.9. The key outcomes of all audit opinion reviews; audit assurance reviews; advice and guidance; and counter fraud activity will be reported to Senior Management Team (SMT), Executive Members and Audit Committee. There are four levels of audit opinion specifically: no, limited, reasonable, and substantial assurance. When considered with the impact of the system or area (high, medium, low) audit reports highlight risk areas to SMT and Audit Committee.
- 4.10. Progress to implementation of recommendations from all types of audit activity will be reported to SMT and Audit Committee and escalation action taken as required where there are delays in addressing risk. The formal process is that quarterly updates are provided and any significant audit recommendation more than six months past the agreed implementation date is escalated to Executive Member and Strategic Director for review and to Audit Committee if outstanding at nine months.

Plan Content

- 4.11. The audit plan contains various types of audits based on assessed need. Audits focus on the management of emergent and inherent risk and to ensure the continued operation of controls within the Council's overall governance arrangements, its systems and processes.
- 4.12. The time allocated to assurance reviews and advice and guidance is reflective of the need to support the design and implementation of service improvement activities. In the coming year this will include responding to developments and changes being made including those in Adult Services through the Improvement Programme; Health and Social Care; Climate Change actions and the "Our Transformation" programme.
- 4.13. To manage the audit plan and maintain flexibility within the resourcing available some block allocations are made. These will be used to draw down resource for specific audit work based on risk assessment and need assessed in year. This approach is to ensure that the plan remains current and responsive to business needs.

- 4.14. Resource is required for counter-fraud, irregularity and probity work including ongoing work to develop key proactive counter fraud tools. This work will include development and enhancement of Counter Fraud strategies in collaboration with Bolton and other Council partners.
- 4.15. External work (paid assurance) is an offer available to schools and academies and other assurance requests will be considered as appropriate.
- 4.16. Internal Audit offers a Schools Data Protection Officer service. This GDPR work in collaboration with Bolton Council is self-funded and is contractually committed with a team dedicated specifically to the work and as a result is outside of the scope of the audit plan.
- 4.17. Through the annual planning and audit risk assessment process a number of areas of inherent risk were considered where assurance work could be undertaken. These areas are treated as lower overall risk or areas for potential focus in future years and are held 'below the line' as part of ongoing audit planning and review. In year review is carried out as part of ongoing prioritisation of work informed by engagement with key stakeholders.

Scale of Plan and Service Development

- 4.18. A review of the service structure for Manchester and Bolton Internal Audit is ongoing and will be finalised by the end of July 2020 based on a revised timeline.
- 4.19. The Manchester audit service has an approved establishment of 18 staff (excluding the Head and Deputy Head of Internal Audit and Risk Management). The team currently consists of 12 staff equating to ten FTE based on reduced hours arrangements in place. Resource availability is also impacted by maternity leave. These factors present significant resource pressure for the first half of the year. Agency resource and specialist ICT audit resource to support specific, identified assurance needs are being progressed and the resource forecast below includes only a prudent assumption for such staff.
- 4.20. As a consequence of the above, the total resources to be allocated to the management and delivery of direct audit work for 2020/21 based on current assumptions and capacity planning is 1,619 days for all Council and external client work.
- 4.21. This scale of plan is a short term proposal only as the level of audit resource required for the Council has been assessed by the Head of Audit and Risk Management and Deputy Chief Executive and City Treasurer as being c2500-3000 days. It is this scale of resource that is being proposed in the service structure for implementation from the end of July 2020.

4.22. Of the total audit resource, the planned work is as follows:

	Days 2020/21	Days 2019/20
Manchester City Council	1,564	2,554
GM Combined Authority (Ended 2019/20)	Nil	80
Support to Bolton Council	40	40
External: Schools & Academies	15	50
	1,619	2,724

Planned Audit Work Allocations

4.23. The plan has been compiled to broadly reflect the senior management structure:

- Core: Deputy Chief Executive & City Treasurer and City Solicitor.
- Growth & Development and Neighbourhoods: Director of Neighbourhoods and Strategic Director (Growth and Development).
- Children's Services: Director of Children's Services and Director of Education
- Adults Services: Director of Adult Services and Director of Population Health

4.24. The spread of time assigned to the Directorates, as well as across the thematic areas of Counter Fraud and Irregularity; Data, Information and Systems; and Procurement, Contracts & Commissioning is shown below.

Area	2020/21		2019/20	
	Days	%	Days	%
Counter Fraud and Irregularity	420	30%	677	30%
Children's Services and Education	155	11%	231	10%
Adults Services (including MHCC and MLCO)	125	9%	212	9%
Corporate Core	166	12%	219	10%
Data, Information and Systems	65	5%	108	5%
Neighbourhoods; Growth and Strategic Development	120	9%	198	9%
Procurement, Contracts & Commissioning	124	9%	197	8%
Follow Up, Advice and Guidance	150	11%	217	10%
2019/20 Completion and Contingency	50	4%	203	9%
Total Audit Time on Direct Audits	1,375		2,262	

Other Direct Audit Activity: Planning, Delivery Management and Assurance Reporting	189		292	
Total Bookable Audit Time	1,564		2,554	

5. Recommendations

5.1. Members are requested to

- Review and approve the Annual Internal Audit Plan for 2020/21.
- Agree to a mid-year plan review and revision report to be presented in October 2020.