

**Manchester City Council
Report for Information**

Report to: Audit Committee - 28 July 2020

Subject: Internal Audit Plan 2020/21

Report of: Deputy Chief Executive and City Treasurer / Head of 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 Head of Internal Audit and Risk Management is required to communicate internal audit plans and resource requirements, including significant interim changes, to Senior Management Team and the Audit Committee for review and approval.

As a result of the Covid-19 pandemic Internal Audit stood down its existing, draft audit plans and suspended business as usual activity in order to support elements of the organisation's response; redirecting the majority of resource to critical business activities. The audit plan for 2020/21 has now been revised and proposals for the rest of the year are outlined in this report, based on current risk assessment and information available.

Recommendations

Members are requested to review and approve the Annual Internal Audit Plan for 2020/21.

Wards Affected: None

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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 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 approval them. For local authorities the "board" is defined as the Audit Committee.
- 1.2. Initial actions to develop the annual audit plan were carried out during early 2020 however Audit Committee asked for the audit plan to be represented with a greater level of assurance over plans to address gaps in staffing resources.
- 1.3. Subsequently Covid19 impacted the Council and Internal Audit stood down its planned audit activity. This was to minimise impact on services and personnel involved in the response; focus audit resource on advice and guidance for the management of urgent changes required to systems and processes; and help deliver new services required as part of the crisis response. Work postponed included actions to progress the service restructure, as management were required to focus fully on the response to the crisis.
- 1.4. As the Council continues to move from crisis response into recovery, the audit plan for 2020/21 has been revised to ensure it is both focused and relevant, and is aligned to risks related to and emanating from the pandemic. The plan must remain flexible and will require regular review and update, to ensure it continues to add value and targeted assurance; based on risk and priority need.
- 1.5. The Internal Audit team is carrying a number of vacancies and maternity leave that impacts the number of days available to complete reviews. In addition, the service restructure has not progressed as intended and is being revisited in light of the Councils current budget review. As such the plan presented for approval is based on a current forecast of available resources, with consideration to seeking alternative additional means of assurance. Proposals for addressing the shortfall in audit resource and future structure will be presented to Audit Committee for comment at a future meeting.

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 have been applied in the re-development of the 2020/21 plan.
- 2.2. 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, as demonstrated by the impact of Covid19.
 - A range of types of audit work provide for different scope and coverage.
 - Advice and guidance is provided 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.
- Proposed areas for audit are assessed and ranked against risk criteria to determine priorities. The criteria considered are.

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

- For the current audit plan there has been a focus on critical business impacts of Covid-19 and providing assurance that underlying systems and processes remain effective and appropriately controlled.

3. Phased Audit Plan Approach

- 3.1. The plan is based on quarters, reflecting the Council's move from Covid19 response to recovery, then a period of transformation and longer term change.

Quarter One April to June 2020

- 3.2. The original plan of audit activity for 2020/21 was largely suspended as a result of the Covid19 response and business as usual audit activities were superseded by more urgent priorities that included support for:

- assessment, resolution and reporting of emerging risks to support effective governance and situation reporting via incident management arrangements;
- administration of urgent business rates relief, grants and discretionary support, where auditors have supported design of the schemes; checked and validated applications and payment runs; and investigated issues of potential fraud and error; and
- development and delivery of arrangements for the Manchester and Trafford PPE Hub.

- 3.3. The remaining audit staff focused on provision of advice and guidance to management and officers across the Council and conclusion of the outstanding audit work from the 2019/20 programme. Some mandatory grant certifications were completed in line with requirements.

3.4.

Quarter Two July to September 2020

- 3.5. Internal Audit will begin to increase Covid19 assurance and core assurance activity alongside the provision of direct support. The PPE hub will continue to require some support but this will be on a reducing resource basis from September. The business grants payment activities for Internal Audit will focus on post payment assurance reviews and fraud/error investigations.
- 3.6. Focus in the quarter will include assurance over Covid-19 related risk and new processes introduced to allow for remote working and faster responses, in respect of payments, contract management, delegations and decision making.
- 3.7. Work will also include assurance review and audits in respect of recovery and transformation programmes, for example providing assurance over ways of working and planned changes to policies and processes, digital and ICT systems, financial planning and workforce development activity. We envisage this work continuing through the year and will include the roll out of Office 365, changes in information governance policies, finalisation of the Data Centre migration and other priority ICT programmes. Audit will liaise closely with project boards to gather assurance and to inform future work.
- 3.8. A review of all outstanding recommendations will be completed to assess risk exposure and the viability of implementation plans, given the scale of disruption presented by Covid19. This will be reported to SMT and Audit Committee.

Quarters Three and Four: October 2020 to March 2021

- 3.9. As well as ongoing recovery related assurance, the second half of the year will focus on audits of core systems of governance, risk management and control.
- 3.10. A key area of focus will be Adult and Children's Social Care where there is an agreed need to provide advice and assurance over the quality assurance frameworks, core processes such as supervision and use of the two main social care and care finance systems; Liquid Logic and Controcc. In these areas plans will also be coordinated through the Manchester Local Care Organisation and Manchester Health and Care Commissioning partnerships, to ensure appropriate system wide audit focus on key risks and avoid duplication with health audit teams. The aim is to finalise the approach to risk and assurance mapping in these areas, as well as for finance, ICT and schools, to help inform key stakeholders, including Audit Committee, as to the overall scope, coverage and outcomes of system wide audit and assurance activity.

4. Audit Plan 2020/21

- 4.1. The Internal Audit Plan is presented at Appendix 1. It includes some block allocations for areas where the scope of work is not currently fully defined and will be developed with management in year.
- 4.2. The plan contains different activities to reflect the work required in response to Covid19 and Council priorities. Whilst all audit work will be scoped to consider the context and implications of Covid19, there are some areas that relate to risks arising specifically as a result of the pandemic and are described separately.

Type of Assurance	Description
Covid-19 Direct Delivery	Operational support to new service provision: Includes Personal Protective Equipment and aspects of business grants work. It does not constitute independent, audit work.
Covid-19 Assurance Support	Work that provides assurance but as an integral part of a new system or process – primarily business grants and rate relief and aspects of advice and guidance in the development of new systems and processes.
Covid-19 Audit and Assurance	<p>More formal audit work that links to recovery priorities and key risks relating to Covid19 and includes:</p> <ul style="list-style-type: none"> • Assurance Assessments • Developing Systems and Risk Based Audits • Formal Advice and Guidance
Covid-19 Counter Fraud and Irregularity	Counter fraud work directly linked to activities and programmes arising from the response to Covid19. Focused currently on business grants and rate reliefs
Core Audit and Assurance	<p>Work focused on core strategies, systems and processes and includes:</p> <ul style="list-style-type: none"> • System and Compliance Audits • Developing Systems and Risk Based Audits • Governance and Strategy Audits • Grants Certification.
Core Advice, Guidance & Support	<p>Management Assurance Requests</p> <p>Attendance on working groups and boards</p>
Core Counter Fraud, Irregularity	Proactive and reactive counter fraud and irregularity activities, including investigation of allegations of internal and external fraud and irregularity

4.3. The key outcomes of all audit work will be reported to SMT, Executive Members and Audit Committee. There are four levels of audit opinion in assurance reports: no, limited, reasonable, and substantial assurance. These are considered along with the organisational impact of the system or area under review (high, medium, low). Progress made in the implementation of recommendations from all types of audit activity will be regularly reported to SMT and Audit Committee.

Areas of work

4.4. The plan has been compiled to broadly reflect the senior management structure, Covid19 work and cross cutting areas as shown below.

Area	2020/21		2019/20	
	Days	%	Days	%
Covid-19 Direct Delivery	150	9	N/A	
Covid-19 Assurance Support	390	23		
Covid-19 Audit and Assurance	75	4		
Covid-19 Counter Fraud and Irregularity	50	3		
Children's Services and Education	100	6	231	10
Health and Care (Adults)	100	6	212	9
Corporate Core	115	7	219	10
Data, Information and Systems	50	3	108	5
Neighbourhoods; Growth and Strategic Dvt	60	4	198	9
Procurement, Contracts & Commissioning	70	4	197	8
Counter Fraud and Irregularity	183	11	677	30
2019/20 Completion	45	3	203	9
Follow Up, Advice and Guidance	150	9	217	10
Total Audit Time Booked to Audits	1,538		2,262	
Other Direct Audit Activity	139	8	292	11
Total Direct Audit Time	1,677		2,554	

5. Scale of Plan and Resources

- 5.1. The 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 currently impacted by maternity leave. These factors present significant resource pressure for the year.
- 5.2. Usually external agency and specialist ICT audit resource would be used to supplement the in house provision as required. At this stage, given the nature of proposed work, much of which requires a thorough understanding of the current context and organisational arrangements, no additional resource is planned but this will be reviewed further as the year progresses. 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 1,677 days.
- 5.3. This scale of plan is a short term proposal as the level of audit resource required for the Council has been assessed by the Head of Audit and Risk Management and the Deputy Chief Executive and City Treasurer as being c2500 days. It is this scale of resource that is being proposed in the service structure which will be finalised for formal consultation in August, pending decisions on cost savings that will be required to achieve a balanced Council budget.

6. Recommendations

- 6.1. Members are requested to review and approve the Annual Internal Audit Plan for 2020/21.

Appendix 1

Audits in 2020/21 Internal Audit Plan

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
Covid19	Personal Protective Equipment (PPE) Hub	Covid19 Direct Delivery	High	Crisis response: Logistics, stock and distribution. Recovery response: Logistics, stock and distribution	x	x	x	x
	PPE Finance Reconciliations, Reporting and Recharging	Covid19 Direct Delivery	High	Production of financial reconciliations and recharges		x		
	Small Business Rate relief / Retail Hospitality Grants Process Design	Covid19 Direct Delivery	High	Support in design of processes and controls for schemes	x			
	Small Business Rate relief Retail Hospitality Grants Discretionary Business Grants	Covid-19 Assurance Support	High	Prepayment assurance and verification checks with Revenue and Benefits team	x	x		
	Assurance: Business Grants: Post Payment checks	Covid-19 Assurance Support	High	Post payment checks to inform verification of payments		x	x	
	Counter Fraud: Business Grants Fraud and Error Investigations	Covid-19 Counter Fraud and Irregularity	High	Investigations into potentially fraudulent claims and payments		x	x	x

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
	Recovery work streams and projects	Covid-19 Audit and Assurance	High	Audit assurance and support for core recovery programmes with scopes to be developed as needed. Likely to focus on outcomes of the 'Future of the Council' work stream but may also include activity relating to the 'Economy' and 'Residents and Community' work streams. Health and Social Care included in audits and partnership block allocation below.		x	x	x
	Budget review and Medium Term Financial Strategy	Covid-19 Audit and Assurance	High	Assurance over the approach to the review of budget planning and modelling to achieve a balanced budget 2020/21 and 2021/22.		x		
	Officer Decision Making	Covid-19 Audit and Assurance	High	Assurance over the approach to delegations and decision making during the Covid19 Crisis response.		x	x	
	Hospital Discharges	Covid-19 Audit and Assurance	High	Review of new framework for hospital discharges in light of Covid impact preparations		x		
	Supplier Relief Arrangements	Covid-19 Audit and Assurance	Medium	Assess completeness and accuracy of the supplier relief records maintained.		x		
	Use of Contract Extensions and Waivers	Covid-19 Audit and Assurance	High	Assurance over the effectiveness of contract planning, the waiver process and use of contract extensions – with a focus on the first quarter 2020/21		x		
Counter Fraud and Irregularity	Counter Fraud Awareness	Proactive	Medium	Delivery of DMT briefing and awareness sessions		x	x	

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
	National Fraud Initiative (NFI)	Proactive and Probity	High	Co-ordination and facilitation of the Council's response to the NFI including data collation, review of matches and action to address anomalies.			x	x
	Reactive Counter Fraud Investigations	Reactive	High	Block to address referred work and deliver investigations. This includes referrals primarily in respect of: <ul style="list-style-type: none"> • Corporate fraud, irregularity & error • Housing Tenancy Fraud • Right to Buy Fraud • Council Tax Reduction Scheme fraud • Non Domestic Rates. 			x	x
Corporate Core	Annual Governance Statement / Register of Significant Partnerships	Advice and Guidance	Medium	Review and support for the refresh of the processes for the compilation of the AGS and the mechanisms for the governance review of significant partnerships.	x		x	
	Climate Change Response	Advice and Guidance	Medium	Support refresh and reframe of governance arrangements; contracts and key performance indicators.			x	
	Core Financial Systems	Core Audit and Assurance	Mandatory	Delivery of programme of ongoing assurance over the effectiveness of the Council's core financial systems starting with risk and assurance mapping to inform assurance needs.		x		

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
	Our Town Hall	Core Audit and Assurance	High	To provide project assurance and advice and guidance on a risk basis over the Our Town Hall project. This is likely to focus on include contract management and delivery of work packages.			x	
	Grant Certifications	Core Audit and Assurance	Mandatory	Certification of grant returns for accuracy and completeness including: <ul style="list-style-type: none"> • Urbact C-Change (EU funding) • URBACT Zero Carbon Cities (ZCC) • ABCitiEs 		x	x	x
	Loans and Grants: Due Diligence	Core Audit and Assurance	Medium	Assurance over arrangements for approval and monitoring of loans and repayments				x
Data, Information and Systems	ICT Audit	Core Audit and Assurance Advice and Guidance	Medium	Block - Scope to be informed with an ICT assurance map refresh and likely to include assurance over: <ul style="list-style-type: none"> • Payment Card Industry (PCI DSS) compliance • Liquid Logic Implementation • Data Centre Programme Support • Office 365 roll out • Cyber Incident management • Cyber Security Follow up Audit • Asset Control and End User Devices 		x	x	x

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
	Early Years and Education System implementation (EYES)	Core Audit and Assurance	Medium	Developing system review to assure progress toward implementation and business continuity.		x		
	GDPR: Data Protection Impact Assessments	Core Audit and Assurance	Medium	Follow up of limited assurance opinion to confirm implementation action.				x
Adult Services	Integrated Neighbourhood Teams (MLCO)	Core Audit and Assurance	High	Assurance over the development of integrated neighbourhood delivery teams in line with expectations and in support of the discharge of statutory duties.				x
	Health and Care Commissioning including MHCC	Core Audit and Assurance	High	Assurance over the developing commissioning arrangements for health and social care. Strategy and operational arrangements between MCC, MHCC and MLCO.				x
	Health and Social Care Governance (MHCC)	Core Audit and Assurance	Medium	Review of changing governance arrangements for MCC, MHCC and MLCO.			x	
	Health and Social Care assurance framework	Core Audit and Assurance	Medium	Assurance map for the arrangements in place across Health and Social Care.			x	
	Strength Based Approach	Core Audit and Assurance	High	Review of progress and impact of strength based approach as fundamental building block within service improvement.		x		
	Mental Health Casework	Core Audit and Assurance	High	Assurance over the impact of embedding changes to the system following a limited assurance opinion in				x

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
				2018/19 and follow up audit in 2019/20. Joint work with health audit.				
	Adults Services Quality Assurance Framework (QAF)	Core Audit and Assurance	High	Assurance over the QAF and impact on casework improvement			x	
	Adults Supervisions and Management oversight	Core Audit and Assurance	High	Follow Up Audit: To confirm progress to implementation of recommendations made in 2019/20.			x	
Children's Services	Children's Quality Assurance Framework (QAF)	Core Audit and Assurance	High	Assurance over the QAF as core aspect of the service delivery model and assurance over statutory duties			x	
	Children's Services Management and Oversight and Supervisions	Core Audit and Assurance	High	Effectiveness of the arrangements in place for supervision of social work.			x	
	Planning for Permanence	Core Audit and Assurance	High	Assurance over the application of core process for planning for permanence.			x	
Education, Skills and Schools	Financial Health Checks	Core Audit and Assurance	Medium	Annual programme of school financial health checks focused on financial systems of governance and control.	x	x	x	x
	Education Services Assurance	Core Audit and Assurance	High	Block allocation to provide assurance on aspects of education services which may include Safer Recruitment; SEND Local Offer; Educational Health Care Plans (EHC); and Children Missing from Education, based on assessment of risk.			x	

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
Procurement, Contracts and Commissioning (PCC)	Factory Project	Core Audit and Assurance	High	To provide project assurance and advice and guidance on a risk basis over Factory projects				x
	Contract Management	Core Audit and Assurance	High	Block allocation of reviews to provide assurance over fundamental aspects of contract management including contract governance, cost control and performance management for a sample of contracts.		x	x	x
Growth and Development	Governance and management of major projects	Core Audit and Assurance	High	Review of effectiveness of arrangements for the management of major capital projects including governance, risk assessment, decision making and reporting.			x	
	Disabled Facilities Grant	Core Audit and Assurance	Mandatory	Grant certification on the spend of the Disabled Facilities Grant.				x
	Northern Gateway	Core Audit and Assurance	High	Assurance over the governance arrangements for the Northern gateway project.			x	
	Civic Quarter Heat Network (CQHN)	Advice and Guidance	High	Risk assessment over the CQHN project, to inform potential future audit work.		x		
	Northward Housing (ALMO)	Advice and Guidance	High	Assurance over the proposals and timescales for decision and action in respect of the future arrangements for Northwards Housing ALMO.		x		
Neighbourhoods	Highways Programme and Project Assurance	Core Audit and Assurance	Medium	Follow up audit to review of progress to address risk following Highways Assurance review 2019/20				x

Area and Allocation	Audit Title	Audit Type	IA Risk Assess	Audit input or assurance to be obtained	Q1	Q2	Q3	Q4
	Highway Grant Certifications	Core Audit and Assurance	Mandatory	Annual certification of grants compliance based on identified need.			x	
	GMCA - Growth Deal	Core Audit and Assurance	Mandatory	Assurance over grants received and spent			x	
Follow Up – Recommendation reviews and assessment						x		x
External Clients - Schools and Academies – Fee Paying Health checks						x		x
2019/20 Completion					x			