

**Manchester City Council  
Report for Resolution**

**Report to:** Audit Committee - 15 April 2019

**Subject:** Internal Audit Plan 2019/20

**Report of:** Deputy Chief Executive and City Treasurer / 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 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 review and approve the Annual Internal Audit Plan for 2019/20.

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**Wards Affected:** None

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**Background documents (available for public inspection):**

- Annual Audit Plan 2018/19 (Audit Committee June 2018)
- Corporate Risk Register (Audit Committee March 2019)
- Annual Governance Statement 2018/19 and Head of Audit Annual Assurance Opinion 2018/19 (Audit Committee April 2019)
- Quarterly Assurance Reports (Audit Committee 2018/19)

## **Internal Audit Plan 2019/20**

### **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 2019/20 annual Internal Audit plan.

### **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 2019/20 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. In addition to mandatory audits, such as grants, the risk criteria used are:

Reputational Impact	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
Welfare of People	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 2019/20 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 Partnership Risk Register.
- Consideration of Executive Member priorities, OurManchester 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).
- Review of the OurManchester Strategy, OurPeople Strategy and other key strategy documents.
- Assessment of the outcomes from audit and investigation work in 2018/19 and earlier years.
- 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. Work was carried out in collaboration with Bolton Council audit on assurance maps developed based on CIPFA / SOLACE standards, Association of Local Authority Risk Management standards and organisation service areas / themes. These have been used initially within Internal Audit to capture audit and other assurances over systems of governance, risk management and internal control; at corporate, directorate and support service levels. This work will be further developed in the coming year to support ongoing audit planning and assurance reporting and shared with senior officers and Audit Committee. Key areas of focus reflected in the 2019/20 audit plan for this activity are Core Financial Systems; ICT; Procurement and Contracts; Highways, Counter Fraud; and Health and Social Care. The aim of this approach is to strengthen the Service's ability to articulate the outcomes of internal audit work but also reflect on other sources of assurance including reports to Executive and Scrutiny Committees; and the work of other assurance providers including NHS internal audit providers, external audit, other 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.

3.3. Following this work an audit plan broken down by themed and specific audits and assurance reviews has been developed to provide for key assurance needs across the organisation. It is presented below.

- 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 the substantial transformational change programme and the potential impact of reduced resources on the control environment. The Service has carried out a review of business plans and priorities and engaged with 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 in blocks. This time will be assigned when the work is more apparent and can be scoped effectively and agreed with management in year.
- 4.2. For 2019/20 this is based on a number of key factors including:
- Budget savings required linked to transformation of services and changes in service delivery models.
  - The ongoing governance, risk and control impacts of devolution and major local changes such as the planned integration of health and social care with associated impact of developments in the Local Care Organisation and Manchester Health and Care Commission.
  - The ongoing implementation and embedding of OurManchester and OurPeople strategies and the response to the BHeard Survey 2018.
  - The need for flexibility to provide appropriate assurance at various stages of large scale projects including Factory and Our Town Hall and within large scale service improvement plans including Adults Services and embedding service change in Children's Services.
- 4.3. The resource availability for Assurance and Counter Fraud work is finite and this means that some potential areas of audit explored with management cannot be resourced in-year. The approach to assessment of risk and consideration of other sources of assurance enables decisions to be taken on where audit focus should be given. These areas of potential focus are all captured as part of audit planning for consideration in future years or for reprioritisation should matters develop such that the initial audit assessment of risk is deemed to have changed. A modest contingency is also held to support urgent or high risk requirements within 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 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. There remains a need for short, focused and practical audits and advice. The scope 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 and that resource is also directed to consultancy where opinions may not be provided but where advice and support may be given and assurance assessment work to enhance the understanding of the control environment. This is not an uncommon approach but has been tailored to reflect the specific needs of the Council. It is consistent with the approach taken in the development and delivery of previous audit plans.

### **Plan Structure**

- 4.8. There are a number of different types of audit activity included in the annual plan. For 2019/20 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, Probity & Investigations	25%	Proactive counter fraud activities Corporate counter fraud investigations Other counter fraud investigations

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”) and Audit Committee. For all audit opinion reviews in 2019/20, the opinion will reflect both the level of assurance of the system or area under review. This has been changed for the coming year from five to four levels of opinion specifically: no, limited, reasonable, substantial assurance along with providing the impact of the system or area (high, medium, low) to assist SMT and Audit Committee by highlighting areas of greatest risk.

4.10. The position on 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 old 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. This reflects the need to 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 a number of transformation and service improvement activities. In the coming year this includes responding to changes including Adults; Health and Social Care; Children's Services; Corporate Core and Contracts and Commissioning.
- 4.13. To manage the audit plan and maintain flexibility within the resourcing available some time is allocated in blocks which will be used to draw down resource needed 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. In particular, the approach will be available for work including Our Town Hall Project; Factory; Contracts and Commissioning; and Adult Services Improvement Plan.
- 4.14. The need for investment of resource for counter-fraud, irregularity and probity work continues as in previous years including the development of key proactive counter fraud tools and in collaboration with partner organisations.
- 4.15. External work which is paid assurance activity is an offer available to schools and academies and other assurance requests will be considered as appropriate. In the coming year work continues to include development and enhancement of Counter Fraud strategies working in collaboration with Bolton and other Council partners. The service for schools as Data Protection Officer in relation to GDPR is operational. This work in collaboration with Bolton is self-funded with a team dedicated specifically to the work and as a result is outside of the scope of the audit plan.
- 4.16. Some areas have been included in the audit plan as a block of time for assurance assessments. These are not specifically focused on producing opinions but at focused assessment of available sources of assurance and developing intelligence. They will nonetheless contribute to the overall assessment of assurances during the year and as part of the Head of Audit and Risk Management's annual audit opinion.
- 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 are areas where audit risk assessment and knowledge of other sources of assurance mean they have been assessed as lower overall risk or areas for potential focus in future years. These areas are held 'below the line' on the audit plan each year and are reviewed as part of ongoing audit planning and engagement with key stakeholders across the business. Areas held below the line for 2019/20 are noted at the end of the audit plan at appendix one.
- 4.18. These areas will be considered within assurance mapping activities in 2019/20 to assess sources of assurance and then reconsidered for the 2020/21 audit plan. These areas will form part of a broader report requested by Audit Committee for the Autumn setting out area of potential audit focus over the next 24-48 months and links to other sources of assurance.

## Scale of Plan and Service Development

- 4.19. A review of the service structure for Manchester and Bolton Internal Audit was delayed and is to be finalised by the end of September 2019 based on an agreed timeline. The appointment of a Deputy Head of Internal Audit and Risk Management was agreed in March 2019 and he will be in post in May 2019 as part of the new structure arrangements proposed.
- 4.20. The Manchester audit service has an approved establishment of 18 staff (excluding the Head of Internal Audit and Risk Management) which is equivalent to 16 FTE with reduced hours arrangements. There remains one Lead Auditor vacancy and one Senior Auditor vacancy which will be resolved as part of the restructure. With temporary arrangements in place to cover the two vacancies, the current resource available for the 2019/20 audit plan equates to 16 FTE.
- 4.21. The plan assumes, as in previous years, that some additional resource will be bought in to support specialist audit needs in ICT audit and this is under review in line with brought forward work.
- 4.22. As a consequence of the above, the total resources allocated to the management and delivery of direct audit work for 2019/20 is 2,724 days. This compares to 3,085 planned days for all Council and external client work for 2018/19. The key difference in this overall total is as a result of the reduction in work for the GMCA which was to be resourced through the recruitment of additional staff on agency or short term contracts in 2018/19 and following the decision of the GMCA to further develop and recruit to their own in house audit service is therefore not required beyond the need of quarter one 2019/20.
- 4.23. Of the total audit resource, the split across Manchester, Bolton work and other audit work is as follows:

	<b>Days 2019/20</b>	<b>Days 2018/19</b>
Manchester City Council	2,554	2,450
GM Combined Authority	80	575
Bolton Council	40	40
External: Schools & Academies	50	20
	<b>2,724</b>	<b>3,085</b>

### Planned Audit Work Allocations

- 4.24. The plan has been compiled to broadly reflect the SMT structure (which had been changed during 2018/19) as follows:
- Core: Deputy Chief Executive & City Treasurer and City Solicitor;
  - Growth and Neighbourhoods: Director of Neighbourhoods and Strategic Director (Development);
  - Children's Services: Director of Children's Services and Director of Education;

- Adults Services: Director of Adult Services and Director of Population Health.

4.25. Contingency and follow up includes 100 days held back for in-year priorities and a small number of audits in progress at year end. These audits include work on MHCC, Highways Contractor Due Diligence, ICT and Planning Permanence, all of which are scheduled for completion in quarter one of 2019/20.

4.26. 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	2019/20		2018/19
	Days	%	Days
Counter Fraud and Irregularity	677	30%	650
Children's Services and Education	231	10%	237
Adults Services (including LCO and MLCO)	212	9%	183
Corporate Core	219	10%	218
Data, Information and Systems	108	5%	120
Neighbourhoods, Strategic Dvt & Highways	198	9%	258
Procurement, Contracts & Commissioning	197	8%	202
Follow Up, Advice and Guidance	217	10%	242
2018/19 Completion and Contingency	203	9%	68
<b>Total Audit Time on Direct Audits</b>	<b>2,262</b>	<b>100%</b>	<b>2,178</b>
Other Direct Audit Activity including Planning, Delivery Management and Reporting	<b>292</b>		<b>272</b>
<b>Total Bookable Audit Time</b>	<b>2,554</b>		<b>2,450</b>

## 5. Recommendations

5.1. Members are requested to review and approve the Annual Internal Audit Plan for 2019/20.