

Report for Resolution

Report To: Audit Committee - 3 June 2010

Subject: Internal Audit Plan 2010/11

Report of: City Treasurer / Head of Internal Audit and Risk Management

Summary

In accordance with the Chartered Institute for Public Finance and Accountancy Code of Practice for Internal Audit in Local Government, the proposed areas of coverage for the Council's Internal Audit Section are set out in an annual plan. The plan is designed to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the Council and is informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

The Code of Practice emphasises the need for a strong working relationship between internal audit and the Audit Committee and that this should include Audit Committee's "approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan.

Recommendations

Members are requested to consider and approve the Annual Internal Audit Plan for 2010/11.

Wards Affected:

The plan comprises audits that could affect all wards in the City.

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Background documents (available for public inspection):

Documents used in the development of the plan include the Internal Audit Plan 2009/10, Emergent Audit Plan 2010/11, Annual Internal Audit Report 2009/10 and

Annual Governance Statement 2009/10 presented to Audit Committee throughout 2009/10 and 2010/11.

2010/11 Internal Audit Annual Plan

1. Background to report

- 1.1. The Chartered Institute for Public Finance and Accountancy Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (The CIPFA Code) established the expected professional standards for internal audit in local government. The CIPFA Code is informed by standards from other professional institutes, including the Institute of Internal Auditors (IIA) and the Government Internal Audit Standards (GIAS) issued by HM Treasury, and is the standard against which the quality of internal audit in local government is assessed.
- 1.2. The CIPFA Code sets out the requirement for an internal audit strategy and an annual internal audit plan. The focus of this report is the Internal Audit plan for 2010/11.

2. Approach to plan development

- 2.1. Section four of the CIPFA Code states the need for an effective working relationship between internal audit and the Audit Committee and that this should include Audit Committee's "approval (but not direction) of, and monitoring of progress against, the internal audit strategy and plan". Whilst the annual plan is not being presented for approval, it is intended that the following provides assurance to members on the approach being taken, the key characteristics of the plan and the areas proposed for review.
- 2.2. The approach to audit planning in the Council for 2010/11 has been based largely, but not exclusively, on the following:
 - Draft annual governance statement.
 - Review of the corporate risk register.
 - Review of all service business plans.
 - Review of the Corporate Plan, Community Strategy and other key strategy documents.
 - Review of external audit and inspection reports.
 - Cumulative audit knowledge and experience.

- Engagement with Heads of Service and directorate management teams.
 - Engagement with audit colleagues across Greater Manchester and the Core Cities.
- 2.3. On this basis, an emergent plan of areas for audit coverage was been developed and presented to Audit Committee in March 2010.
- 2.4. The final plan reflects the resources available for the year. It reflects current resources but is based on an expectation that a vacant career grade auditor post will be filled in the year. It also assumes the modest use of external resources to support delivery.
- 2.5. Having accounted for planned non-chargeable time there are a total of 3,274 audit days to be spent on the delivery and management of direct audit work. This is a reduction from 3,622 in 2009/10. The main reason for the reduction are as follows:
- Prudent assumptions on recruitment to carer grade posts to ensure that the plan is deliverable within the year.
 - Allocations of development time to Lead Auditors and Audit Managers to support cross Council projects as well as in internal service development and improvement projects in the year.
 - Time required for the relaunch and refresh of the audit approach as part of the upgrade of the electronic audit working paper and management system.
 - Specific team training time in the year to support standardisation and simplification of audit processes and ensure sufficient time is allocated to support continuous leaning and development in support of performance improvement.
 - Additional professional training days reflecting an increase in staff within career grade posts.
- 2.6. The allocation of this time to auditable areas is set on out in section 4.

3. Key characteristics of the annual plan

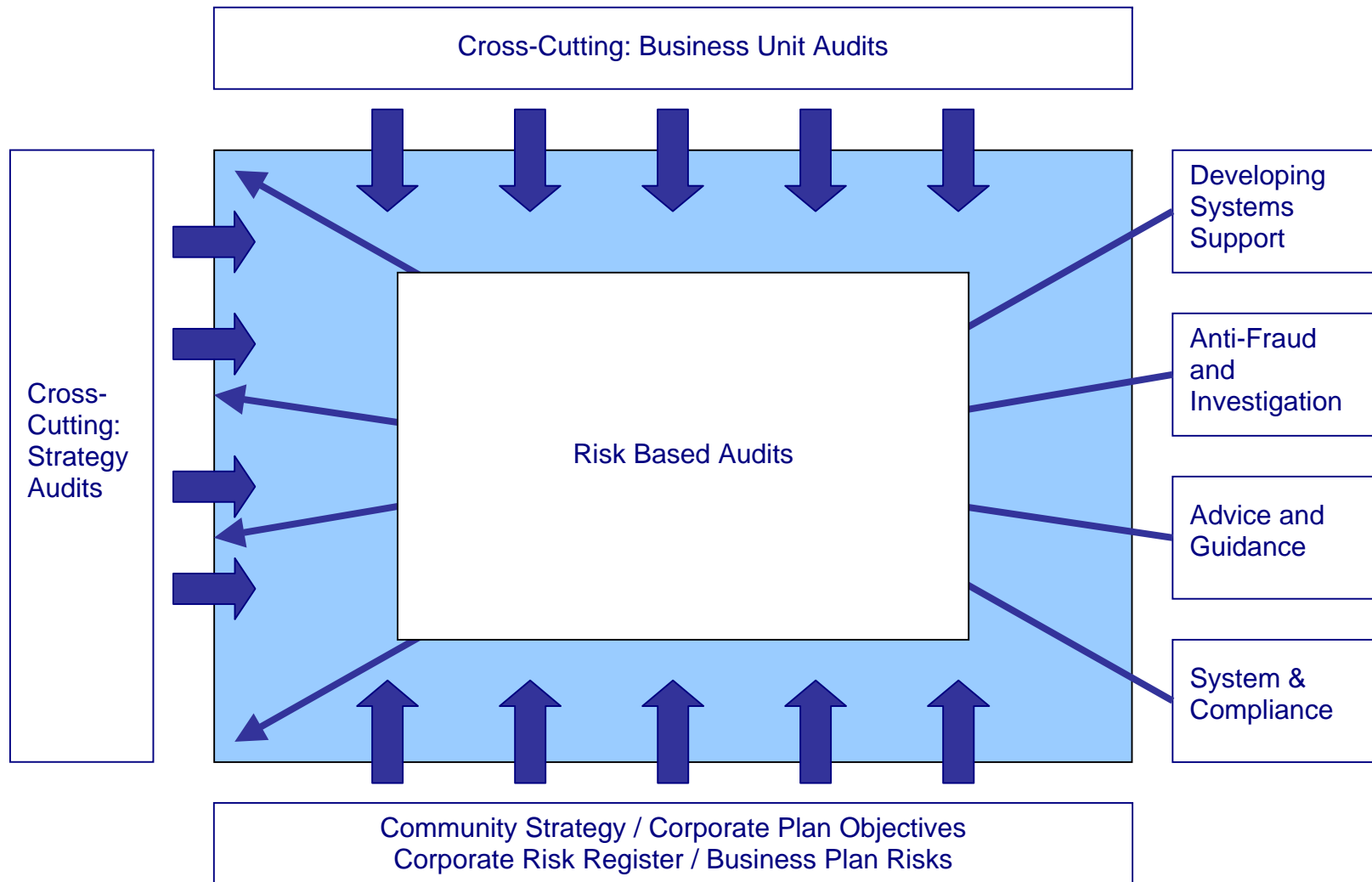
- 3.1. As set out in diagram 1, the annual plan is comprised of a combination of different audits tailored to reflect the specific needs of the Council.
- 3.2. As in 2009/10 the types of audit in the plan are as follows:

- Strategy: To provide an assurance opinion on the Council's strategic approach to the management of core business processes. Examples include the Information, People and Cultural Strategies.
- Business Unit: To provide an assurance opinion on the adequacy and effectiveness of arrangements to ensure the achievement of business plan objectives, specifically through the management of finance, people, performance and risk.
- Risk Based: To provide assurance on the arrangements in place to manage key business risks. These are the audits that focus on risks in service plans and the corporate risk register and are designed to provide management and members with assurance that appropriate steps are being taken.
- Compliance: To provide assurance to statutory officers and key stakeholders that key systems and processes are operating as intended. This will include work on the core financial systems.

3.3. The plan also includes other assurance work as follows:

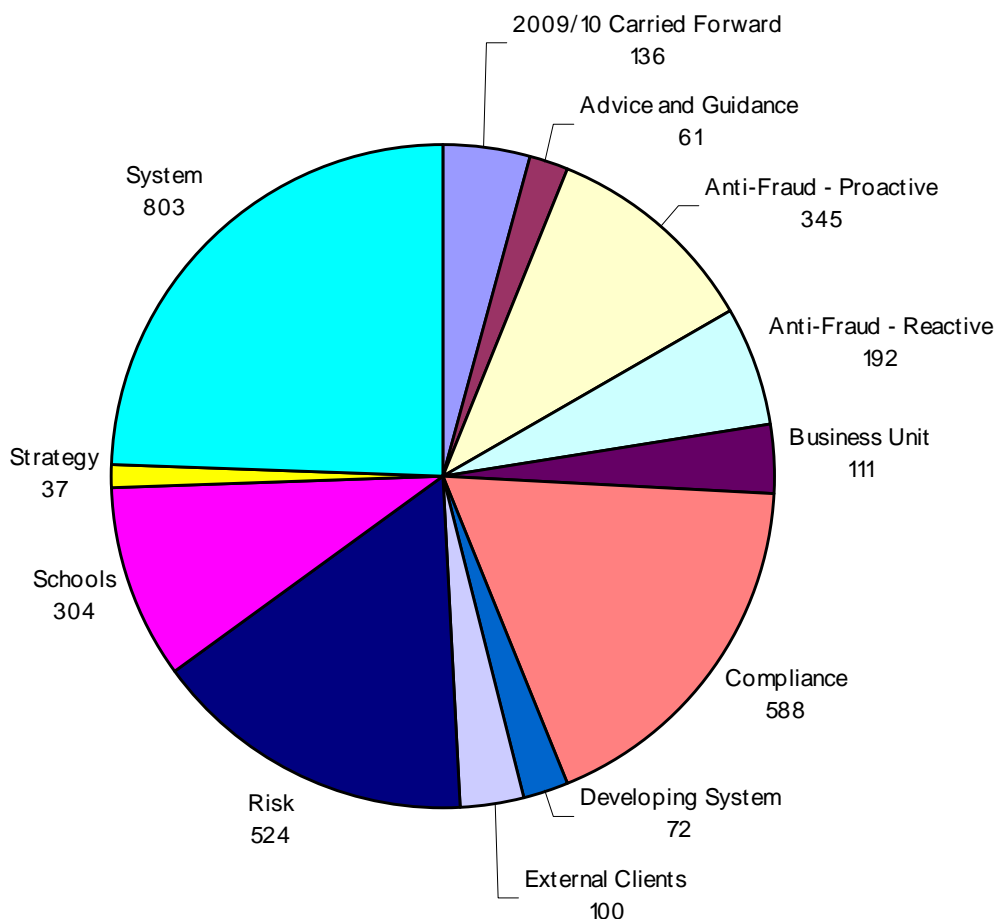
- Proactive Anti Fraud Programme and Investigations: Building on proactive audit work in 2009/10 the 2010/11 plan includes an allocation of time for further developing awareness of fraud risks across the Council and using technology, audit and investigation techniques to help focus resources in areas identified as presenting risks. A total allocation of 537 days has been allocated to anti-fraud and investigations in the plan with the allocation to the proactive element of the work reflecting Section aspirations to increase the proportion of work in this area. Achievement of this aspiration will be dependent on actual reactive referrals in the year and will be kept under constant review.
- Developing Systems: To provide early engagement on the development of new systems or processes and make recommendations to mitigate risks where appropriate.
- Advice and Guidance: Internal Audit provides ongoing advice across the Council. Whether through attendance at working groups or responding to telephone enquiries this remains an area where early advice and support can help maintain a robust control environment.

Diagram One – Audit Plan Framework



3.4 The final allocations of time in the plan are set out in diagrams 2 and 3 as follows:

Diagram 2 – Allocation of direct audit days in 2010/11 – By Audit Type



3.4. Further details of the specific reviews in these areas are included at appendix one but in summary the main areas of focus are as follows:

2009/10

3.5. Completion of work from the 2009/10 audit plan year that was carried forward for completion in early 2010/11. In particular this includes the finalisation of reports issued in draft during March 2010 and work relating to year end processes including support in production of the annual governance statement.

Advice

3.6. Allocation of 61 days for formal advice and guidance to all services. Historically this has involved advice to schools, support for the development of governance arrangements and ongoing support to

officers in areas such as procurement and compliance with financial regulations.

- 3.7. The plan for each directorate also includes time for client management which is used for ongoing advice and guidance throughout the year.

Recommendation follow-up

- 3.8. Each service allocation includes time for the follow-up and reporting of recommendations issued in prior years. This accounts for 120 days across the plan and includes time for follow-up of recommendations issued in school reports and as a result of reactive fraud investigations.

Anti fraud

- 3.9. Programme of proactive and reactive anti-fraud work. This includes an allocation of 192 days for investigations and 347 days of work in the conduct of intelligence-led investigation work and the development of corporate anti-fraud arrangements. Following pilot reviews of proactive work in 2009/10 the allocation of time in this area has been increased and will focus on key financial systems and other fraud risk areas. Given the higher than anticipated number of investigations in the year it is also necessary to increase the reactive allocation to ensure sufficient days are earmarked to support or lead investigations into allegations of fraud and corruption.

System and Compliance

- 3.10. The most significant proportion of time in the plan has been allocated to system audits (25%). These are reviews of key financial, business and ICT systems and involve a full evaluation of the adequacy of controls and testing how they are operating in proactive. Compliance audits focus on the testing element and in 2010/11 include audits of casework management in the Directorate for Adults,
- 3.11. Much of this work is designed to provide assurance to the Council's statutory officers including the City Treasurer and City Solicitor. It also includes review of contracts and procurement, audits of casework management in adult and children's social care and audits of data quality and information security.

Cross Cutting

- 3.12. The plan includes 148 days for cross-cutting audits. This includes the business unit and strategy audits referred to earlier in this report. Other cross cutting work including the Town Hall Complex Transformation Programme and the Analyse and Improve Manchester (AIM) Target Operating Model audits are included as developing system and risk based audits within the allocation for the Directorate of Transformation.

School Audits and FMSiS

- 3.13. The audit of schools and the delivery of the Financial Management Standard in Schools (FMSiS) assessments account for a significant proportion of the plan and reflect the investment from Internal Audit and the Council in supporting and challenging school governance and financial management in Manchester.
- 3.14. In accordance with central government guidance, this work has traditionally been separated, with FMSiS assessment taking place approximately three months after a school audit. This guidance has been relaxed and for 2010/11 the assessment process is being delivered at the same time as the audit. This should help efficiency of process but also minimise disruption to the schools involved.

Risk Based Audit Work

- 3.15. Risk based audit work has been informed by business and corporate risk registers and accounts for 16% of the plan. Audits in this area include business continuity, development of the customer relationship management system and the effective use of consultants.

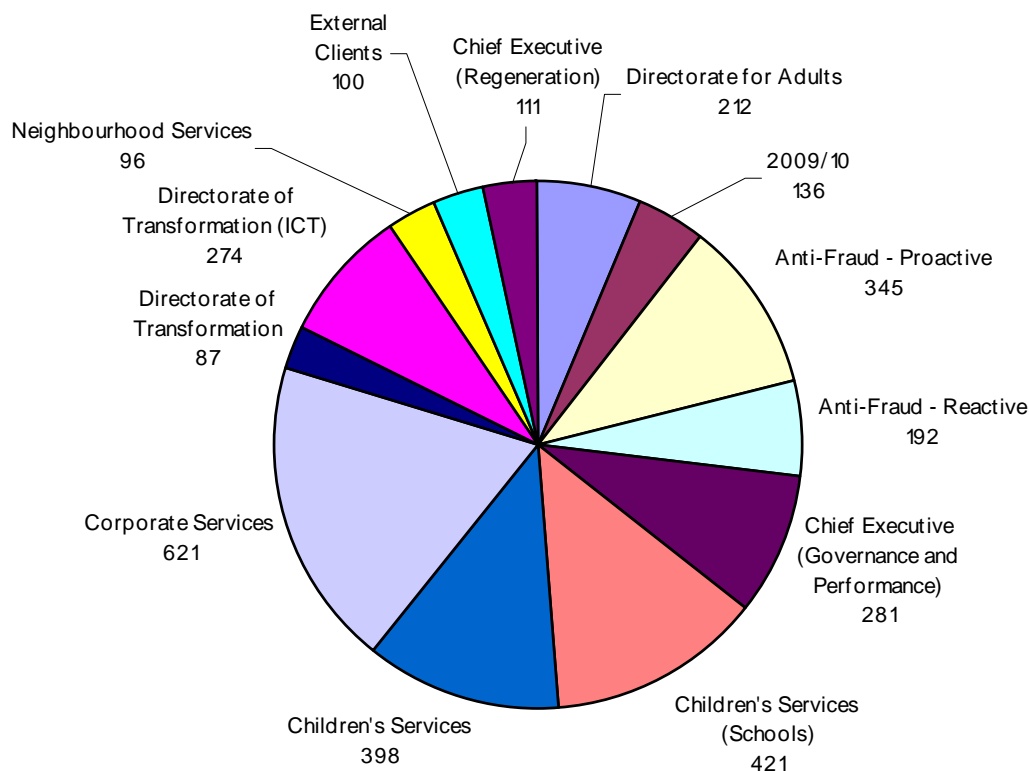
Other

- 3.16. The final element of the audit plan is for audit work provided to the Greater Manchester Integrated Transport Authority, PATROL and Mersey Valley Joint Committee where the Council acts as lead authority. This is part of the workplan for the section but results in outputs that are reported to these respective bodies.

Allocation by Directorate

3.17. The work of the Internal Audit Section is aligned to the Council's directorates and the allocation of work within each is set out below:

Diagram 3 – Allocation of direct audit days in 2010/11 – By Directorate



3.18. Significant proportions of time have been allocated to Corporate Services (19%), schools (13%) and Children's Services (12%) where coverage includes work on the core financial systems, contracts, school audits and Financial Management Standard in Schools assessments. Elements of school-related audit work are included in the Children's Services allocation including audits of attendance and CRB checks where the focus of the audits will be on the operation of controls within a sample of schools.

3.19. Proactive and reactive anti fraud work relate to all directorates and schools and account for 17% of the total allocation and reflect the priority allocated to this work in the year.

3.20. The allocation of time includes the apportionment of 627 days of planning, audit and client management, advice and guidance and recommendation monitoring across the plan.

4. Conclusions

4.1. Members are asked to approve the Internal Audit Plan for 2010/11.

Appendix 1 Audits in 2010/11 Internal Audit Plan

Area and Allocation	Audit Title	Audit Type	Internal Audit Assessed Risk	Assurance to be obtained	Corporate Plan Priorities										Use of Resources KLOEs
					1	2	3	4	5	6	7	8	9	10	
Directorate for Adults (212 days)	Personalisation	System	High	Effective systems for administering individual / personal budgets			X				X		X	X	1.1, 2.4
	Residents Payments	System	High	Effective systems for administering residents payments			X				X		X	X	1.1, 2.4
	Casework Management	Compliance	High	Compliance with casework management policies and procedures for vulnerable adults			X						X	X	2.2, 2.4
	Reablement	Compliance	High	Compliance with management policies and procedures within the Reablement Service							X			X	2.1, 2.2
	Personal Assistants	System	Medium	Mechanisms for ensuring personal assistants supporting service users are CRB checked			X							X	2.4
	Homecare Contracts	System	Medium	Effective systems for monitoring homecare contracts								X		X	2.1, 2.4
	Transition Management	System	Medium	Children's care records are transferred appropriately to Adults											2.2, 2.4

Area and Allocation	Audit Title	Audit Type	Internal Audit Assessed Risk	Assurance to be obtained	Corporate Plan Priorities										Use of Resources KLOEs
					1	2	3	4	5	6	7	8	9	10	
Anti-Fraud (537 days)	Directorate for Adults Fraud Risks	Compliance	High	Programme of testing on cash handling and individual budget payments.			X		X					X	2.4
	Fraud referrals and whistleblowing cases	Risk	High	Investigation of allegations of fraud and corruption, responses to whistleblowing allegations and collation of intelligence on other cases reported to Internal Audit					X					X	2.4
	Financial Systems Fraud Detection Exercises	Anti-Fraud - Proactive	Medium	Risk based proactive reviews of duplicate payments housing rents, purchase cards, fees payroll and payments to employees					X					X	1.1, 1.3, 2.4
	School Security	Anti-Fraud - Proactive	Medium	Testing of physical security in schools - safes and security					X					X	2.2, 2.4, 3.2
	Developing Anti Fraud Arrangements	Advice and Guidance	Medium	Refresh of policies and procedures in respect of anti-fraud including money laundering, developing fraud risk intelligence and use of audit and investigative techniques.					X		X			X	2.4
	National Fraud Initiative	Compliance	Mandatory	To identify possible cases of fraud from NFI and detect and correct any consequential under or overpayments from the public purse.					X					X	2.4

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					1	2	3	4	5	6	7	8	9	10		
Chief Executive (Governance and Performance) (281 days)	Annual Governance Statement	Advice and Guidance	High	Ongoing advice and support to the development of the Annual Governance Statement process						X					X	2.3
	Compliance with Codes of Conduct	System	Medium	Compliance with Code requirements - specific area of testing to be determined.					X						X	2.3, 2.4
	Data Quality	Compliance	Medium	Compliance with data capture, monitoring and reporting arrangements											X	2.2
	Complaints	Compliance	Medium	To provide assurance over compliance with the Council's complaints policy										X	X	2.2, 2.3
	Cultural Strategy	Strategy	Medium	Strategy audit of the vision for cultural development	X			X							X	2.1, 2.3
	Partnerships	Compliance	Medium	Compliance of significant partnerships against the partnership governance framework					X						X	1.1, 2.1, 2.3
	Business Planning and Management	Advice and Guidance	Medium	Ongoing advice and support to the development of the Council's business planning and performance management arrangements					X	X	X	X	X	X	X	2.3
	Sponsorship	System	Medium	To provide assurance that systems ensure the appropriate allocation of sponsorship to third parties and partners					X						X	1.1, 1.2, 2.3, 2.4
	Equality	Risk	Medium	Risk based audit of progress against equality standards					X					X	X	2.3, 3.3
Schools (421 days)	School audits and FMSIS	System	High	Annual programme of school audits		X								X	1.1, 1.3, 2.1, 2.3, 2.4	

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Children's Services (398 days)	CRB checks	Compliance	High	Compliance audit of CRB processes focusing on high risk areas such as schools and children's centres												X	2.4
	Closing Schools	Compliance	High	Audits of compliance with procedures for the closure / transfer / change in status of schools												X	1.1, 2.3, 2.4
	Contact Point Certification	Compliance	Mandatory	Annual Certification of Contact Point database as required by central government								X				X	2.2, 2.4
	Youth Service	System	Medium	Effective arrangements for managing performance and delivery against priorities		X	X									X	1.2, 2.1, 2.2, 2.3
	Sure Start children's centres	Compliance	Medium	Compliance with operational and performance management procedures		X	X	X								X	2.2, 2.3
	School Risk Management	System	Medium	Allocation of time for assessment of risks to the Council arising from schools and for engagement with Governing Bodies	X	X	X	X				X				X	2.3, 2.4
	21st Century Schools	Risk	Medium	Risk based audit of arrangements for developing school governance across the City	X	X	X	X				X				X	2.3
	Children's Trust Programme	Risk	Medium	Risk based audit of projects within the Childrens Trust Programme in terms of progress, realisation of benefits and outcomes.		X						X				X	1.2, 2.1

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	Business Unit Audit - District (Social Care)	Business Unit	Medium	Effective management of people, finance, risk and performance		X	X					X	X	X	X	1.2, 2.1, 2.2, 2.3, 2.4, 3.3
	Integrated admissions Service	System	Medium	Effective arrangements and processes within the admissions service		X								X	X	2.2, 2.3
	School attendance	System	Medium	Operational arrangements support the management of improved attendance at a sample of schools.	X	X	X	X							X	2.2, 2.3
	Casework Management	Compliance	Medium	Compliance with casework management policies and procedures for vulnerable children			X								X	2.4
	16-19 funding	Risk	Low	Risk based audit of transfer of funding responsibilities for 16-19 education and skills								X			X	1.1, 2.3, 2.4
Corporate Services (621 days)	Business Unit Audit - Valuation and Property	Business Unit	Low	Effective management of people, finance, risk and performance				X			X		X	X	X	1.2, 2.1, 2.2, 2.3, 2.4, 3.3
	Value for Money Strategy	Strategy	Medium	Effective arrangement for management and monitoring of delivery of the Council's value for money strategy							X			X	X	1.1, 1.2, 1.3
	Revenues and Benefits	Risk	Medium	Recovery and suppressions are applied appropriately										X	X	1.1, 2.4
	Consultants	Risk	Medium	Arrangements ensure efficient and effective use of external consultants							X	X		X	X	1.1, 2.1

Area and Allocation	Audit Title	Audit Type	Internal Audit Assessed Risk	Assurance to be obtained	Corporate Plan Priorities										Use of Resources KLOEs	
					1	2	3	4	5	6	7	8	9	10		
	Framework Contracts	Risk	Medium	Arrangements ensure appropriate contracts have been developed for use through the North West Construction Hub								X			X	1.1, 1.2, 2.1, 2.3
	Contract Compliance	Compliance	Medium	Compliance with financial regulations for capital and revenue contracts								X			X	1.1, 1.2, 2.1
	Revenues and Benefits	Risk	Medium	Effective arrangements for quality assurance - linked to compliance with Audit Commission requirements								X	X		X	1.1, 2.2, 2.3, 2.4, 3.3
	Risk Management	Risk	Medium	Appropriate risk management arrangements are in place across the Council											X	2.3, 2.4
	Financial Health checks	Other	High	Audits of partners, contractors and services based on in-year identification of need												1.1, 2.1, 2.3, 2.4
	Core Financial Systems	System and Compliance	Mandatory	Full system and compliance audits to provide assurance over the effectiveness of the Council's core financial systems								X			X	1.1, 1.2, 1.3, 2.4
	Grant Certifications	Compliance	Mandatory	Support to City Treasurer that grant claims are fairly stated								X			X	2.2, 2.4
Directorate of Transformation (87 days)	Target Operating Models	Risk	High	Benefits identified in target operating models are being realised					X	X	X	X	X	X	X	1.1, 1.2, 2.3, 2.4, 3.2, 3.3
	Town Hall Transformation Programme (Governance)	Developing System	High	Risks to the successful governance of the programme are managed effectively						X	X	X	X	X	X	2.3, 2.4
	Town Hall Transformation Programme (Contracts)	Compliance	Medium	Contracts demonstrate probity and the delivery of value of money						X	X	X	X	X	X	1.1, 1.2, 2.1

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					1	2	3	4	5	6	7	8	9	10			
Directorate of Transformation (ICT) (274 days)	ICT Information Security	Risk	High	ICT systems and control of electronic data support compliance with the principles of the Data Protection Act.												X	1.2 2.1, 2.4, 3.2
	Information Security - Schools	Risk	High	Schools ensure control of electronic and paper documents in accordance with the principles of the Data Protection Act.												X	2.2, 2.3, 2.4
	Information Security	Compliance	High	The Council ensures control of electronic and paper documents in accordance with the principles of the Data Protection Act.												X	2.2, 2.3, 2.4
	ICT Business continuity	Risk	High	ICT service resilience supports business continuity					X		X	X	X	X	X		2.3, 2.4
	ICT Consolidation and Management	Developing System	High	Assessment of progress in the consolidation of the ICT service with focus on people, finance, assets and management control.						X	X	X				X	1.2, 2.3
	Internal and External Penetration Tests	Compliance	High	Potential vulnerabilities of the Councils internal and external facing ICT infrastructure are managed												X	2.2, 2.4
	Strategic Partnering	Developing System	Medium	Deliverables agreed with the strategic ICT partner are being delivered in accordance with contracts and expectations						X	X					X	1.2, 2.1, 2.3
	IT Licensing	Risk	Medium	Effective arrangements for the management of IT licences across the Council							X					X	

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					1	2	3	4	5	6	7	8	9	10		
	IT Project Management	Compliance	Medium	Effective arrangements for the management of ICT projects							X	X			X	1.2, 1.2, 2.1, 2.3, 2.4, 3.2
	Government Connect	Compliance	Medium	Compliance with the requirements of the Government Code of Connection											X	2.2, 2.4
	Customer Relationship Management System	Risk	Medium	Controls in the CRM system provide the required levels of security over data and information							X		X	X		2.2, 2.4
	Secure Printing	Developing System	Low	Proposals for the rationalisation of printing ensure appropriate security controls are retained							X				X	2.4
Neighbourhood Services (96 days)	Waste Management - Recycling	Developing System	Medium	To provide assurance, advice and support on the development of recycling arrangements.				X	X						X	2.1, 3.1
	Leisure Trust	System	Medium	Deliverables agreed with the Leisure Trust are being delivered in accordance with contracts and expectations			X	X			X				X	2.1, 2.2
	Business Unit Audit - Street Scene Services	Business Unit	Low	Effective management of people, finance, risk and performance				X			X		X	X		1.2, 2.1, 2.2, 2.3, 2.4, 3.3

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					1	2	3	4	5	6	7	8	9	10	
Chief Executive (Regeneration) (111 days)	PFI housing contract compliance	System	Medium	Arrangements ensure PFI schemes are delivering to contractual commitments				X			X			X	1.2, 2.1, 2.2, 2.3
	Social Housing Allocation	Risk	Medium	Arrangements ensure the appropriate identification and allocation of social housing				X					X	X	2.2, 2.3
	Area Regeneration Teams (SRF)	Risk	Medium	Strategic regeneration frameworks are effective in delivering improvement by reference to specific wards/activity.	X	X	X	X			X		X	X	2.1, 2.3, 3.2
	Management of Regeneration Projects	Compliance	Medium	Appropriate records and evidence are maintained to demonstrate compliance with grant conditions	X	X	X	X	X		X			X	1.1, 1.3, 2.1, 2.3, 2.4
External Clients (100 days)	GMITA	External Client	Mandatory	Contract audit service											
	Patrol	External Client	Mandatory	Contract audit service											
	Mersey Valley Joint Committee	External Client	Mandatory	Contract audit service											
	Other Partner Audits	External Client	Mandatory	Contract audit service											

Area and Allocation	Audit Title	Audit Type	Internal Audit Assessed Risk	Assurance to be obtained	Corporate Plan Priorities										Use of Resources KLOEs		
					1	2	3	4	5	6	7	8	9	10			
Block Allocations (136 days)	Brought Forward 2009/10																
Block Allocations (within service allocations)	Follow-up of Internal Audit recommendations																
	Advice and Guidance																
	Client and Delivery Management																

Key to Corporate Plan Priorities

Priorities are based on the 2007-10 plan (www.manchester.gov.uk/downloads/file/3310/corporate_plan_2007-2010)

- 1: Promoting economic development
- 2: Reaching full potential in education and employment
- 3: Promoting individual and collective self-esteem – mutual respect
- 4: Creating Neighbourhoods of Choice
- 5: Improving Council and community leadership
- 6: Delivering the Manchester Improvement Programme
- 7: Continuously improving the value for money of our services
- 8: Developing our workforce to deliver high-quality services
- 9: Ensuring customer and neighbourhood focus, and equality of opportunity in employment and service provision
- 10: Managing our performance and risks to ensure we deliver our objectives