

MANCHESTER CITY COUNCIL ITEM 5

REPORT FOR INFORMATION / RESOLUTION

COMMITTEE Audit Committee

DATE: 25 September 2008

SUBJECT: Internal Audit Update

REPORT OF: The City Treasurer

PURPOSE OF REPORT

To provide an update on the development of the Council's Internal Audit Service.

RECOMMENDATIONS

Members are requested to note the actions taken and proposals for further development.

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:

None

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BACKGROUND DOCUMENTS

N/A

WARDS AFFECTED N/A

IMPLICATIONS FOR KEY COUNCIL POLICIES

<u>Anti-poverty</u>	<u>Equal Opportunities</u>	<u>Environment</u>	<u>Employment</u>
None	None	None	None

INTERNAL AUDIT UPDATE REPORT – SEPTEMBER 2008

1. Introduction

- 1.1. This update report sets out the developing position in respect of internal audit at Manchester City Council. It explains briefly the background to the report and sets out the actions taken by the Council to respond to Member, officer and External Audit concerns previously raised. It also sets out the actions that are being taken by the Interim Head of Internal Audit to ensure that issues of concern are fully addressed during 2008/09.

2. Background

- 2.1. At the June 2008 meeting of the Audit Committee External Audit presented their assessment of Internal Audit. This report highlighted a number of areas for development including the need to ensure the delivery of annual internal audit work on the core financial systems, the development of key policies and procedures and to address staffing shortfalls. In addition to these operational considerations the assessment raised broader issues for consideration by the Council including a recommendation to agree a strategy for internal audit and determine how the service should be positioned within the overall assurance framework.
- 2.2. The role of the Head of Internal Audit was also a subject for consideration by Personnel Committee in July 2008. Approval was given to the post of the Head of Audit and Risk at a salary to be determined. Given the broader considerations as to how internal audit and risk management should be positioned within the Council's assurance framework the recruitment process has not yet been started but will be so as to ensure continuity with the interim position described below.
- 2.3. These formal reports alongside issues raised by officers, independent challenge from Members and emerging findings from the Internal Audit SIP, culminated in a decision to appoint an Interim Head of Internal Audit.

3. Appointment of Interim Head of Internal Audit

- 3.1. Competitive submissions were requested through the Council's financial framework contract and a decision to appoint the Interim Head of Internal Audit from PricewaterhouseCoopers was taken in July 2008. The preferred option was a 6-9 month secondment of an individual, Tom Powell, to act as Head of Service with additional advice and guidance to the Council provided by other specialists from this organisation. Both Tom and Peter Chambers, a Partner at PricewaterhouseCoopers, will be attending the meeting on the 26 September.
- 3.2. The Interim Head of Internal Audit has been in post, on a four day a week secondment, from 4 August 2008.
- 3.3. The aim of the secondment is to ensure that the Council has made good progress towards the development of a 'best in class' internal audit service by the end of March 2009. It would have been relatively easy to use this process

to produce a series of responses to specific recommendations but this would not have addressed some of the broader issues of concern that have been raised. Real service improvement in this area requires a more thorough approach and this is what the Interim Head of Internal Audit has been appointed to deliver. This is ambitious but achievable within the relatively short timescale and whilst there are a number of elements to this challenge one of the first key issues to be addressed is to clarify the role that Internal Audit should perform.

4. The Role of Internal Audit in Manchester City Council

4.1. Before embarking on service improvement it is essential to define and agree the role of Internal Audit. Following consultation with management and Members and a comparison to prevailing best practice in local government, a draft vision for the service has been developed that summarises audit's role as follows:

- A service that assists management, the City Treasurer (Section 151 Officer), Members and the Audit Committee in the effective discharge of their responsibilities including the evaluation of the effectiveness of the Council's risk management process, internal control arrangements, governance processes and value for money controls;
- A source of thoughtful analysis generating relevant and useful recommendations concerning the activities audit has reviewed and making proposals for improvement;
- A competent function of the Council in proactively helping the Council manage its exposure to fraud and corruption;
- A centre of excellence and critical friend to the Council on all issues concerning control which management can consult in the knowledge that the Audit service will have sufficient skills and appropriate levels of resource to provide value added advice and support;
- A service demonstrating commitment to the Council's corporate values, and priding itself on developing its people by way of training and personal development; and
- A service which the Council as a whole feels is accountable, productive and provides good value for money for local residents.

4.2. This describes the vision for the Internal Audit service only as consultation is ongoing as to how the service should be positioned within the broader assurance framework.

5. Service Development - Update

5.1. The establishment of the role of Internal Audit is essential to ensure a focussed approach to service improvement. Alongside the development of the vision, practical actions have been taken and recommendations are being developed by the Interim Head of Internal Audit to deliver the required improvement in the service.

Proposed Actions	Progress Update
Set vision and objectives of the service	<p>Draft vision produced (as set out above) with terms of reference. To be presented to Audit Committee in October 2008.</p> <p>Customer Charter to be developed by the end of October 2008.</p>
Develop and publish Internal Audit strategy and anti-fraud strategy.	This flows from the Internal Audit Vision and will be presented to Audit Committee in October 2008.
Implement new reporting format and present at meetings with senior officers and DMT.	<p>The new audit reporting format has been agreed and the first report in this new format has been agreed and issued as final.</p> <p>This is not just about format but about the use of criteria in the development of assurance opinions, the grading of recommendations and an assessment of management's capacity to address the issues realised within a reasonable timescale.</p> <p>Strengthening the good progress made already in the monitoring and reporting of audit recommendations. This process will be developed as part of the broader review of the service and audit methodology.</p>
Assess structure	<p>Structure has been assessed and will be tailored from October 2008 for six weeks. This includes a greater focus on performance and fraud.</p> <p>There has already been a change of reporting line so that the Interim Head of Internal Audit reports directly to the City Treasurer (previously reported through the Head of Financial Management).</p>

Proposed Actions	Progress Update
Assess structure (continued)	Clearly the issue of resourcing such a structure remains the key issue and this will be addressed through October – December 2008.
Assess audit plan	<p>Year end has been changed from June to March. In response to this there has been a zero-base review of resources required to deliver the plan.</p> <p>This has an impact on the audit plan and Members will be provided with an updated plan at the Audit Committee in October 2008. This approach does not reduce the assurance to be provided to the Committee but simply the year in which the reports will be produced.</p> <p>A separate plan to deliver 12 months of FMSiS work in this 9 month period has also been produced with a business case to buy-in external resources.</p>
<p>Assess and establish roles and responsibilities at all levels. To include roles for:</p> <ul style="list-style-type: none"> • Governance • Anti-fraud • Quality control • Delivery managers <p>• Also to assess roles in respect:</p> <ul style="list-style-type: none"> • Learning & Development • Knowledge management • Methodology development • ICT audit 	Draft roles and responsibilities produced for Senior Audit Management, Lead Auditors and the remainder of the team. These also link to personal objectives and appraisal.
Review and (where appropriate) revise coding structure to ensure time charged reflects time spent by all grades on client / non-client work.	Review of coding has commenced – codes are to be rationalised to assist in management information.

Proposed Actions	Progress Update
Review a sample of files and reports	Initial reviews have been based on reports and the LPSA2 indicators audit file. This work is ongoing and will be fed through into formal Quality Control Review process in the audit manual to be completed by the end of October 2008.
Assess resource requirements	<p>In progress – assessment to be completed in October 2008.</p> <p>Progress to date includes:</p> <ul style="list-style-type: none"> • Audit Manager appointed in September 2008. • Postponement of recruitment for three other posts in the section pending the outcome of the review of internal audit resources, methodology and approach. • Alternative Resourcing plans are being considered to ensure delivery of the annual audit plan. • Despite the uncertainty surrounding the appointment of the Interim Head of Internal Audit and Job Evaluation staffing numbers in the section have remained stable with no long term sickness absence issues to report.
Implement revised (interim) structure	In progress – assessment to be completed in October 2008.
Review audit methodology.	In progress – methodology and audit manual to be introduced / reinforced through training in October 2008.

Proposed Actions	Progress Update
<p>Implement Performance Management information pack for Interim Head of Internal Audit and City Treasurer – to be linked to Audit Committee information requirement :</p> <p>Likely to include:</p> <ul style="list-style-type: none"> • % plan delivered • Implementation rates for recommendations • All critical, major and significant priority findings which have passed their implementation dates but are not implemented • Auditee satisfaction feedback • Staff utilisation data by person • Staff sickness 	<p>Initial findings are that management information is available but there is a need for rationalisation and consolidation. Challenges arise from the use of the Galileo Audit Management system.</p> <p>In progress – to be completed in October 2008.</p>
<p>Develop Staff Training programme. Based on feedback to date and development needs identified.</p> <p>Roll out risk based audit training for all staff. Other training options could include:</p> <ul style="list-style-type: none"> • Value for Money audit • IT Controls • Presentation Skills 	<p>In progress – to be completed by November 2008. Initial sessions on audit reporting and approach to be delivered in October 2008.</p>

6. Operational Update

6.1. In October Audit Committee will receive a full update on progress against the audit plan. In advance of this meeting there is progress to be noted in the following areas:

- Work has commenced on the audit of five of the core financial systems. The scope for this work has been agreed with Grant Thornton and the first report, on Treasury Management, has been finalised with management. Further audit work has been delivered in respect of procurement cards.
- School audits commenced in September and 33 schools will be visited in the period to March 2009. A number of reports have been issued and the review of budget management across schools has been finalised and draft report issued to management. We also completed the work on the Annual Pupil Census and Financial Management Standard in Schools that enabled the Council's annual return to be made to Department of Children, Schools and Families ("DCSF").

- Planning is underway for the performance audit work in the plan and an annual audit report has been issued to the Mersey Valley Joint Committee.
 - The review of Housing Market Renewal has been completed and a draft report is to be issued in September. The Manchester Method audit is ongoing and planning is underway for the ERDF audit.
 - Preparatory pro-active fraud work is underway for the National Fraud Initiative. Three investigations have also been completed in the period.
 - The draft report for the audit of the Manchester Partnership has been completed and will be issued to management in September.
 - Auditors have continued to contribute to the Handbook for Leaders, Governance Working Group and the SMT Sub Group on Governance and Use of Resources.
- 6.2. This is an illustrative list of work performed by the Section in August and September. At the same time the service has successfully completed the job evaluation process and continues to provide ad-hoc advice and support to all directorates.

7. Conclusion

- 7.1. Whilst much progress has been achieved in addressing the issues raised in respect of Internal Audit, there remains work to be done. There is a positive direction of travel and the Interim Head of Internal Audit continues to make regular progress reports to the City Treasurer.

8. Recommendations

- 8.1. Members are asked to note the report and the actions taken in respect of Internal Audit.