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**MANCHESTER CITY COUNCIL  
REPORT FOR RESOLUTION**

**REPORT TO: PERSONNEL COMMITTEE**

**REPORT OF: CHIEF EXECUTIVE AND CITY TREASURER**

**DATE: 10 JULY 2008**

**SUBJECT: REVIEW OF SENIOR MANAGEMENT ARRANGEMENTS IN  
THE INTERNAL AUDIT SERVICE**

**PURPOSE OF REPORT**

To set out proposals for a review of senior management arrangements in the Internal Audit service following on from work undertaken by the external auditors Grant Thornton. These are intended to strengthen strategic governance arrangements for the internal audit service and improve the City Council's organisational arrangements around Comprehensive Area Assessment

**RECOMMENDATION**

The Committee is recommended to grant delegated authority to the City Treasurer in consultation with the Chief Executive, the Head of Corporate Personnel and the Executive Member for Finance and Human Resources to review senior management arrangements and functional groupings to be located within the internal audit service, including establishment of new senior posts and appropriate remuneration levels.

**FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:**

The costs of any revisions to existing staffing arrangements will be accommodated within the Corporate Services Directorate revenue budget.

**FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET**

None.

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**BACKGROUND DOCUMENTS:**

Internal Audit Plan 2007-08  
Internal Audit terms of reference June 2007  
Report of Grant Thornton external auditor.

**WARDS AFFECTED:**

All

**IMPLICATIONS FOR:**

Anti-poverty  
No

Equal Opportunities  
No

Environment  
No

Employment  
No

## **1. BACKGROUND**

- 1.1 The Internal Audit Section is located in the Financial Management Division of the Corporate Services Directorate. Audit matters are also considered by the Executive Member for Finance and Human Resources on a periodic basis. The work undertaken by and performance of Internal Audit is also subject to continuous review by the Audit Committee.
- 1.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- 1.3 The control environment, which is subject to review by Internal Audit, encompasses how the Council:
- Establishes the Council's objectives and monitors how they are achieved.
  - Identifies, assesses and manages risks to achieving the Council's objectives
  - Establishes policy and takes decisions.
  - Uses resources economically, effectively and efficiently (including eliminating waste and demonstrating value for money).
  - Complies with policies, procedures, laws and regulations.
  - Safeguards assets and interests from losses of all kinds (including those arising from fraud, irregularity and corruption).
  - Protects the integrity and reliability of information, accounts and data.

## **2. EXTERNAL REVIEW**

- 2.1 The Council's external auditors, Grant Thornton, have been working with the City Treasurer in reviewing existing arrangements within Internal Audit and have recently issued a report. The review to date has highlighted that this must be supported by a modern, innovative Internal Audit service which will:
- Provide assurance over the core financial framework and systems.
  - Detect, investigate and prevent fraud and corruption.
  - Provide assurance over our management arrangements as a whole.
  - Provide internal consultancy and contribute to the analysis of any managerial, performance or value for money issue across the Council and its partnerships.
- 2.2 The review has found that there is a tension between the first three roles, which are assurance and policing roles and the fourth, which is a role of contributing to the design of solutions which Internal Audit may then be involved in reviewing and policing. This can be managed as a creative

tension. The service can be managed to ensure that the internal consultant role is not at the expense of effectiveness of the first three roles. Internal Audit will not be the main provider of internal consultancy, that should be the MIP team with contributions of staff to virtual project teams from other corporate functions such as Performance, Financial Management, Personnel, Legal Services and from services.

### **3. AUDIT AND RISK MANAGEMENT –THE WAY FORWARD**

- 3.1 A modern, innovative Internal Audit function must be of real value to the City Council. Key to this will be the development and delivery of the annual audit plan. This should be co-ordinated with and complement the Grant Thornton plan so that internal and external audit work closely together to maximize the combined benefit. Where there are opportunities for joint working there may be opportunities for skills transfer.
- 3.2 Internal Audit is part of the Council's overall commitment to improvement and its work must be informed by an understanding of the strategic agenda and pressures within the services and partnerships. Positioning Internal Audit in this way will strengthen its ability to give impartial and critical feedback.
- 3.3 To deliver a modern Internal Audit service with the scope and effectiveness outlined above the balance of skills will need to change. Most staff have, or are studying for, the Institute of Internal Auditors qualification. This balance over provides skills on assurance control and risk work, but provides insufficient skills for in-depth financial analysis. Resources are insufficient at senior level for the high profile work on corporate assurance and consultancy.
- 3.4 Additionally, more graduates are required in the service. The setting up of a graduate entry scheme in conjunction with a university course where a year in Internal Audit is a requirement for qualification and a route into a wider management career within the Council will be investigated. In addition, secondments of trainee accountants, management trainees and others identified as future leaders will raise the status and credibility of the audit service.

### **4. PROPOSAL**

- 4.1 Although significant progress on Risk Management over the last two years has been made, as with Internal Audit it now needs to be taken to the next level. The key challenge on risk is to move beyond risk assessment to become more effective in the identification and delivery of action to mitigate the risk.
- 4.2 To build the skills and competency required it is intended to procure appropriate external support on a temporary basis from a major accountancy consultancy. This will enable the service to start to build the skills and competency base that will allow the changes needed be driven forward over

- 4.3 the next two to three years. In this interim period, the Head of Finance (Corporate and Strategic) will play a key role in providing oversight of this review and day- to day responsibility for the service.
- 4.4 Arising from this period of review and consolidation, the City Treasurer, working with the Chief Executive, now intends to quickly develop detailed proposals for the overall management of the audit service, its connections with other corporate activities and priorities as well as take a view on other associated functions and activities which should fall within the purview of the audit function. It is therefore requested that delegated authority be granted to the City Treasurer, in consultation with the Chief Executive, the Head of Corporate Personnel and the Executive Member for Finance and Human Resources to implement revised management arrangements for the service, including the establishment of new senior posts and appropriate remuneration levels.
- 4.5 Once these revised arrangements have been determined, a rigorous recruitment and selection process would be followed to ensure that we attract and appoint the most capable and motivated applicants to drive forward critical changes in this service area.

## **5. HEAD OF CORPORATE PERSONNEL COMMENTS**

- 5.1 I have worked with the Chief Executive and City Treasurer in the development of this proposal and agree that the City Council needs to refocus Internal Audit in order to address the concerns raised by the external auditor Grant Thornton. This will ensure that the service is closely aligned to the Council's strategic priorities, particularly around more effective utilisation of resources under the Comprehensive Area Assessment process.
- 5.2 Following on from the findings of the external auditors, I concur with the need to review senior management arrangements and the associated functions of the service in order to ensure that it assists the Council to strengthen governance and improves organisational arrangements for Comprehensive Area Assessment.
- 5.3 I will support the City Treasurer to procure an experienced individual from a selection of three consultancy firms for an interim period to lead the service and build the skills and competency base that will allow the changes needed to be driven forward over the next two to three years.
- 5.4 Additionally, I will support the review to ensure that robust management arrangements are put in place and will investigate how the service can attract graduates into entry level positions and look at the potential for secondments of trainee accountants, management trainees and others identified as future leaders in order to raise the status and profile of the section.