

**DRAFT**

**MANCHESTER CITY COUNCIL**

**REPORT FOR INFORMATION / RESOLUTION**

**COMMITTEE**            Audit Committee

**DATE:**                18 January 2008

**SUBJECT:**            Audit and Risk Service Improvement Review  
Progress Report

**REPORT OF:**        The City Treasurer

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**PURPOSE OF REPORT**

To provide a interim report on the progress of the Service Improvement Review of the Audit and Risk Management functions in the Council, to highlight current findings and to outline the plans for further work in the coming months.

**RECOMMENDATIONS**

To note progress to date and plans for further work.

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

None.

<b><u>CONTACT OFFICERS</u></b>	<b><u>Tel Number</u></b>	<b><u>E~Mail Address</u></b>
Richard Paver	234 3564	r.paver@manchester.gov.uk
John Guest	234 3406	j.guest@manchester.gov.uk
Kathryn Fyfe	234 1428	k.fyfe@manchester.gov.uk
John Gill	234 3418	j.gill@manchester.gov.uk

**BACKGROUND DOCUMENTS**

N/A

**WARDS AFFECTED**

N/A

**IMPLICATIONS FOR KEY COUNCIL POLICIES**

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

## **Audit and Risk Service Improvement Project Benchmarking Progress Report**

### **1. Introduction**

- 1.1** This interim report provides details of the progress made in the Audit and Risk Service Improvement Project (SIP). It highlights some emerging findings and areas that will require further analysis and follow up. This paper is presented for consideration by and comment from the Audit Committee. The next stage of the review required further consultation with stakeholders and an analysis of the developments in the corporate governance framework.

### **2 Background**

- 2.1** The SIP is being carried out to address an agreed mandate reproduced at Appendix A. A project board (PB) has been established to review and monitor progress on the SIP review which has been split into two parts for Risk and Audit. The risk stream also incorporates the Insurance function.
- 2.2** The Senior Responsible Officer (SRO) is the City Treasurer, day to day SRO is the Head of Financial Management and project managers are the Acting Head of Internal Audit and the Risk Manager (Strategy). Resourcing for this project is drawn from the Internal Audit and Risk teams.
- 2.3** The PB agreed the same approach to benchmarking for the Risk and Audit elements of the SIP. This included selecting Local Authorities, which represent best practice and where the Authority size and complexity was similar to Manchester and consideration of visits to other organisations in order to get a public sector perspective from outside of Councils.
- 2.4** Research visits were made in October-December and work will continue in January 2008. Meetings were held with relevant Heads of Service in Internal Audit, Risk Management and Insurance to explore a range of areas including organisation and structure, roles and responsibilities, and performance management as well as a review of the key synergies between Internal Audit, Risk Management, Insurance and other related services. The visits have also examined resourcing allocations for internal audit, risk management and insurance and examined the supporting corporate and operational structures within which the functions operate.
- 2.5** Benchmarking data is also being considered from a wide variety of sources including IPF benching reports for Internal Audit and Insurance, Core Cities and AGMA Heads of Audit Group. At this stage there are key findings emerging from the work, which require further evaluation. These are highlighted for information below.

### **3. Risk Management**

- 3.1** There is no preferred model for managing Internal Audit and Risk Management within Councils. No two Councils employ the same management arrangements at a corporate level. In some Councils Internal Audit and Risk share a management line but there is little cross over in terms of strategy and Business Planning yet elsewhere the two services are jointly managed and there are strong linkages between the two. In other Councils the services are managed entirely separately. All Councils report satisfaction with their management structures and are prepared to endorse the models they employ.
- 3.2** Whereas there is no shared view regarding the importance of synergies between Internal Audit and Risk Management, all Councils visited stress the importance of close working links between Risk Management, Business Continuity Management, Emergency Planning and Health and Safety. There was, however, no overwhelming view that it is important to manage these services within one integrated management structure; rather the importance of ensuring cross working was emphasised along with the importance of providing corporate scrutiny of progress within these services through an integrated committee structure.
- 3.3** All Councils provide resources for risk management that exceed those provided in Manchester. When Manchester City Council employed a Risk Manager (Strategy) a little over two years ago it was acknowledged that the overall resourcing need would require reassessment as part of the SIP process. Within other Councils the staffing resource varies greatly depending in part on the roles and responsibilities allocated to the risk team.
- 3.4** All Councils endorse the use of a high-level Corporate Risk Management and Governance Groups. In some Councils these are merged into one group, others manage them separately. This role is partially fulfilled in Manchester by the role of the Corporate Support Team and the work of the Governance Working Group however there is not a dedicated senior management forum charged specifically with steering the risk and governance agenda. Councils use their groups in order to determine strategic priorities, endorse and scrutinise progress with annual Business Planning for risk, to manage the mitigation of risks on the Corporate Risk Register and to hold services to account for the development of service risk assessments and the management of these risks.
- 3.5** Linkages between Risk Management and Performance Management functions are currently underdeveloped but are engaging the thinking of all risk management leads. Manchester is currently ahead of other Councils in developing close relational links between risk management and performance management, most notably in the integration of the two within the service Business Planning framework. Most Councils visited expressed an interest in further developing their linkages between these two services.

**3.6** Structures for managing Insurance within Manchester are widely at variance from those employed within other Councils. As with risk management, resourcing for Insurance varies greatly between Councils and is dependent on the roles and responsibilities undertaken. Manchester is currently the only Council that employs its Legal Services Team in undertaking claims handling; other Councils either run this as an integrated service within the Insurance Team or use external resources under service level agreements. Manchester is also the only Council that employs the use of separate IT systems to manage the insurance function and claims handling.

#### **4. Internal Audit**

**4.1** Internal Audit Sections are internally staffed with some supplement by resources bought in either occasionally for key projects or as a long term recruitment strategy to address assurance and consultancy.

**4.2** Roles and responsibilities vary with some Internal Audit sections covering Risk, Insurance and/or Governance while others are purely Internal Audit. Heads of Audit take on a range of additional tasks in support of the corporate governance agenda and in relation to developing systems. All Internal Audit functions address Anti- Fraud and Corruption through proactive fraud work and reactive investigation work based on audit findings and management referrals and whistleblowing referrals.

**4.3** It is agreed by all that internal audit work must be risk driven, responsive and timely balancing a range of pressures to deliver statutory requirements, demand led and urgent work, advice and support and an appropriate level of assurance opinion. These are often difficult to prioritise within available resources.

**4.4** Audit work is increasing complex and the increasing ranges of skills and experience is required to add value. Expectations of managers is that audit reports will provide more than reports of facts and assurance but will also provide significant advice to enable solutions to be reached. This requires more time and skills as auditors engage with the client in solution development.

**4.5** Staffing levels for Internal Audit vary widely from 70 to the lowest at around 12. Some correlation can be made to the size of the Authority and historically this was also linked to population size. Some are resourced to provide additional internal audit functions for other agencies (such as Police, Fire, and ALMOs) which provides some additional resource flexibility. All recognised that resourcing must be considered in light of the assurance requirement and the needs of the organisation.

**4.6** All endorse the need for Internal Audit to play an effective role in Corporate Risk Management and Governance by either driving the Risk agenda directly or through membership of Governance and/or

Risk Management Strategy groups. This was also clear in the Risk Management review.

- 4.7** Heads of Internal Audit consider that Internal Audit work added additional value in a variety of keys ways. For example providing the business with assurance on key business risks developing systems and business as usual, by being responsive to the needs of the business particularly in times of significant change, improving internal control and supporting embedded risk management and governance, delivery of statutory assurance requirements and the provision of effective solutions to more complex internal control issues.
- 4.8** Quality assurance and control systems varied from ISO 9001 through to simple post audit review questionnaires and completeness tests. All audit teams work to quality manuals and to CIPFA and IIA professional standards.
- 4.9** There was no support for increased levels of shared working and no appetite for externalising or collaborating in resource terms. There was considerable support and success reported in improved networking and sharing of best practice. Salford Computer Audit Service were the exception where it is agreed that high level technical IT audit services are effectively delivered by a shared team.

## **5. Next steps**

- 5.1** To take the SIP review forward it has been agreed with the Project board that:
- 5.2** Benchmarking research and evaluation should be completed with visits to external partners to provide a non Council view.
- 5.3** Internal stakeholder consultation is carried out to assess the expectations and level of understanding of the roles of risk management and internal audit functions.
- 5.4** Evaluation of the implications of the findings and the relationship between these and other Corporate developments will be reported to Project Board for consideration.
- 5.5** Proposals be submitted to Project Board for the future approach to Risk Management and Internal Audit functions.

These are part of the SIP mandate 2005.

1. Establish and analyse existing risk management functions and resources (including business continuity and emergency planning, health and safety and the security and insurance of assets), in particular, identifying any synergies and efficiencies to be exploited in the deployment of these resources. Review the risk management functions and capacity across the authority and develop an appropriate strategic configuration and appropriate governance to deliver effective risk management. Establish appropriate resourcing to provide the necessary levels of support and guidance to managers.
2. To establish the most appropriate size and configuration of the Internal Audit function to provide the necessary amount and levels of skill and experience necessary to provide an adequate and effective service as required by Statute.
3. To identify strategies to improve staff recruitment and retention ensuring flexibility in service delivery and maximise the use of the audit resources available.
4. To explore opportunities with core cities and AGMA authorities to externalise or collaborate in the delivery of audit and risk management activity
5. To integrate effectively the work of internal audit and risk management with the overall governance and planning activities of the Council, in particular those sections also involved in the corporate and managerial health of the Council, including Corporate Performance, Corporate Personnel and Organisational Development.