

REPORT FOR INFORMATION

COMMITTEE Audit Committee
DATE: 2 April 2009
SUBJECT: Emergent Internal Audit Plan 2009/10
REPORT OF: City Treasurer

PURPOSE OF REPORT

To provide Members of the Audit Committee with details of the emergent Internal Audit Strategy and Internal Audit Plan for 2009/10.

RECOMMENDATIONS

Members are requested to comment on the proposed direction and process for the development of the emergent Internal Audit Strategy and annual Internal Audit Plan which will be brought back for approval in May.

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:

None

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BACKGROUND DOCUMENTS

Manchester City Council Internal Audit Plan 2008/09
Internal Audit Terms of Reference and Vision

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

Emergent Internal Audit Strategy and 2009/10 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 (see appendix one). The purpose of this report is to update and engage Members of the Audit Committee in the development of these key documents.

2. The CIPFA Code

- 2.1. The CIPFA Code states that the Council's Head of Internal Audit should develop an audit strategy and an annual audit plan. Whilst the service currently has terms of reference and an approved vision it is proposed that an audit strategy be developed.
- 2.2. It is also an opportune time to develop the strategy. The process of audit planning for 2009/10 has been developed with a focus on the different types of work that the service can deliver to ensure that it makes the most positive contribution to improving the systems of governance, risk management and internal control within Manchester City Council.

3. Strategy

- 3.1. It is proposed that the formal strategy for Internal Audit will be presented to the Audit Committee in May 2009 alongside the annual plan. This is to enable consideration of the proposed strategy to be included in the 2009/10 audit planning consultations across the Council. This strategy will also be considered by the Centre Management Group in April 2009.
- 3.2. An emergent strategy has been developed based on previous discussions with the Audit Committee, the City Treasurer and Senior officers throughout the Council. The emergent strategy based on the four proposed headings in the CIPFA Code is as follows:

A. Internal Audit objectives and outcomes

- The objective for internal audit in Manchester is to deliver a 'best in class audit service as set out in the vision statement (appendix two). Further work is needed to clarify the objectives, outcomes and performance measures that will be developed to ensure the achievement of this vision.

B. How the Head of Internal Audit will form and evidence his or her opinion on the control environment to support the Annual Governance Statement (previously the annual Statement on Internal Control)

- The Head of Internal Audit will form an opinion based on an annual programme of audit work as set out in diagram one on page 3 as well as assurance obtained by other means. This will include four main types of audit:
 - Strategy audits.
 - Business Unit audits.
 - Risk-based audits.
 - Compliance audits.
- It is not considered cost effective to obtain audit coverage of all strategies, business units and risks each year but it proposed that all strategies and business units across the Council will be reviewed within a reasonable timescale.
- In addition to audit, the Head of Internal Audit will consider any issues identified through fraud and corruption or developing systems work insofar as they impact on the effective operation of governance, risk management or internal control within the Council.
- The Head of Internal Audit will also seek to place reliance of assurance mechanisms within the Council as well as the findings of other auditors and inspectors in reaching an annual opinion.

C. How Internal Audit's work will identify and address significant local and national issues and risks

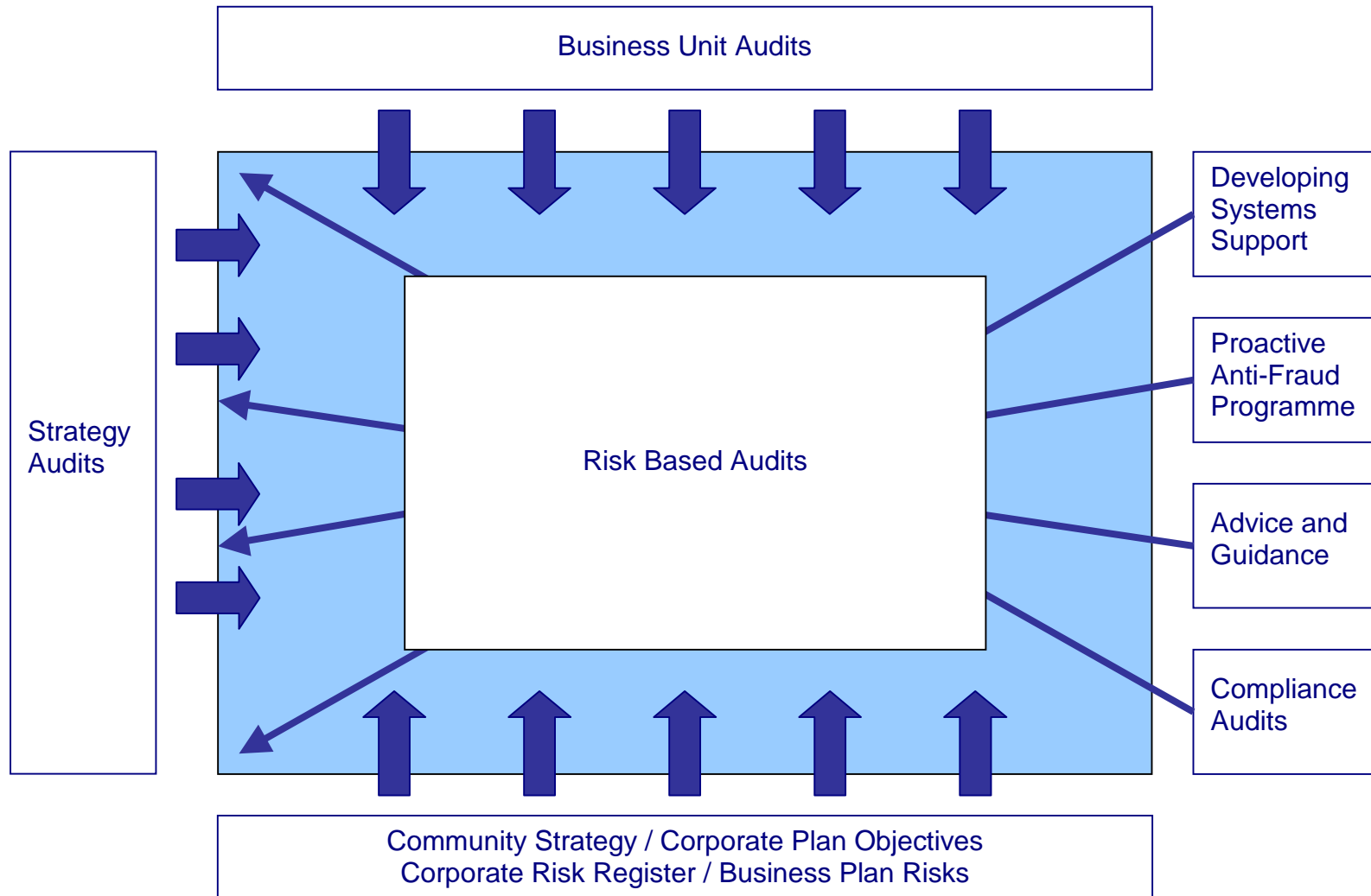
- The Head of Internal Audit will work closely with the Council's Risk Manager and will engage with Heads of Service to ensure that known and emerging unregistered risks from the corporate and service risk registers are considered in annual audit planning.
- Assignment audit planning will consider key risks and the focus of audit work will be tailored accordingly to ensure that local and national issues and risks are addressed.
- The Head of Internal Audit will ensure a culture of risk awareness is maintained within the service so that all members of the team are aware of local and national risks in the performance of their duties.

D. How the service will be provided, ie internally, externally, or a mix of the two the resources and skills required to deliver the strategy.

- The Council will retain a flexible approach to the resourcing of the Internal Audit service, ensuring that an appropriate mix of skills and experience to deliver the most efficient and effective service.
- The current approach is based on the use of an in-house team of audit specialities. This is supplemented by external resource to address shortfalls in skills or capacity as required. This is considered

to be the most cost effective approach but requires a commitment to learning and development to ensure the in-house team has the relevant skill base.

Diagram One – Audit Plan Framework



4. Annual Plan

- 4.1. 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 being proposed for review.
- 4.2. The approach to audit planning in the Council for 2009/10 has been based largely, but not exclusively, on the following:
- Review of the Corporate Risk Register.
 - Review of all service Business Plans.
 - Review of the Corporate Plan, Community Strategy and other key strategy documents.
 - 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.
- 4.3. On this basis, an emergent plan of areas for audit coverage has been developed. Areas have been considered on a risk basis and a plan for consultation has been produced. This is being presented at directorate management teams for comment; to ensure that the risks identified are consistent with their understanding and assessment.

Key characteristics of the annual plan

- 4.4. As noted in the emergent audit strategy, the Interim Head of Internal Audit considers that assurance is best obtained through a combination of different audits. This is not an uncommon approach but has been tailored to reflect the specific needs of the Council.
- 4.5. 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 Procurement 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.

Both the strategy and business unit audits are in development so will be piloted in the first half of the year and depending outcomes the proportion of time allocated to this may be increased.

- 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

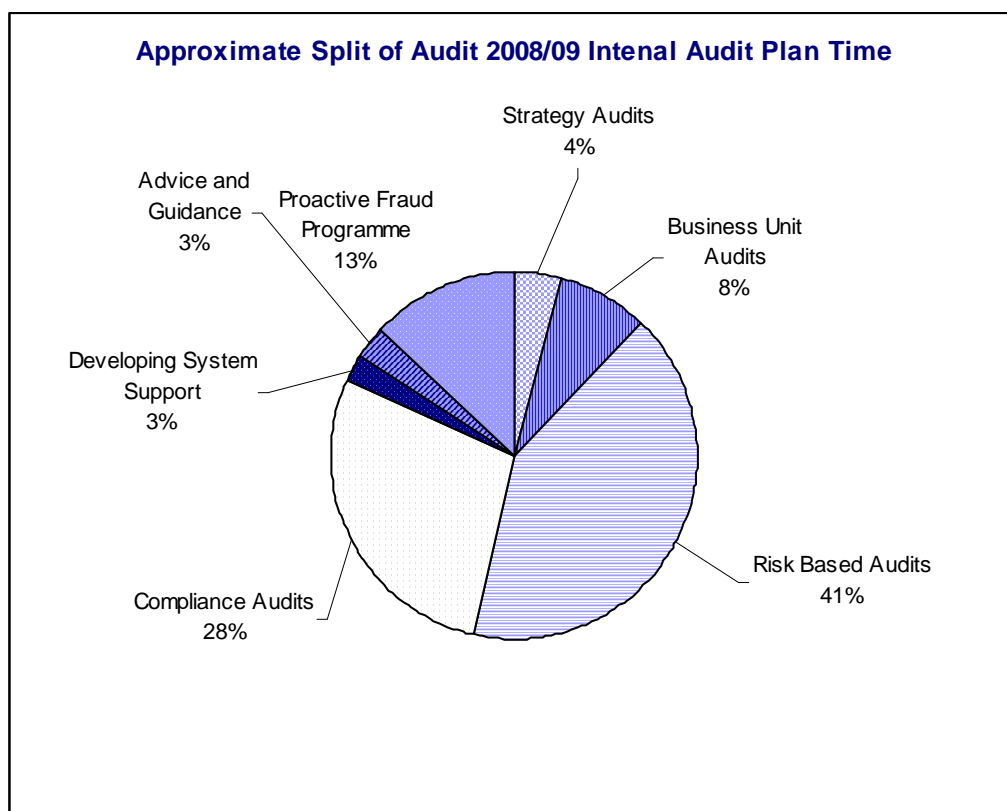
provide management and members with assurance that appropriate steps are being taken.

- 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.

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

- Proactive Anti Fraud Programme: Historically Internal Audit focus on fraud matters has been reactive. It is proposed to strengthen capacity in this area and deliver a more proactive service, raising awareness and using technology to help focus resources on areas of fraud risks.
- 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.

4.7. This approach of different audits and other work is considered the most effective way to deliver the vision for Internal Audit. The initial, proposed split of time across the plan is as follows:



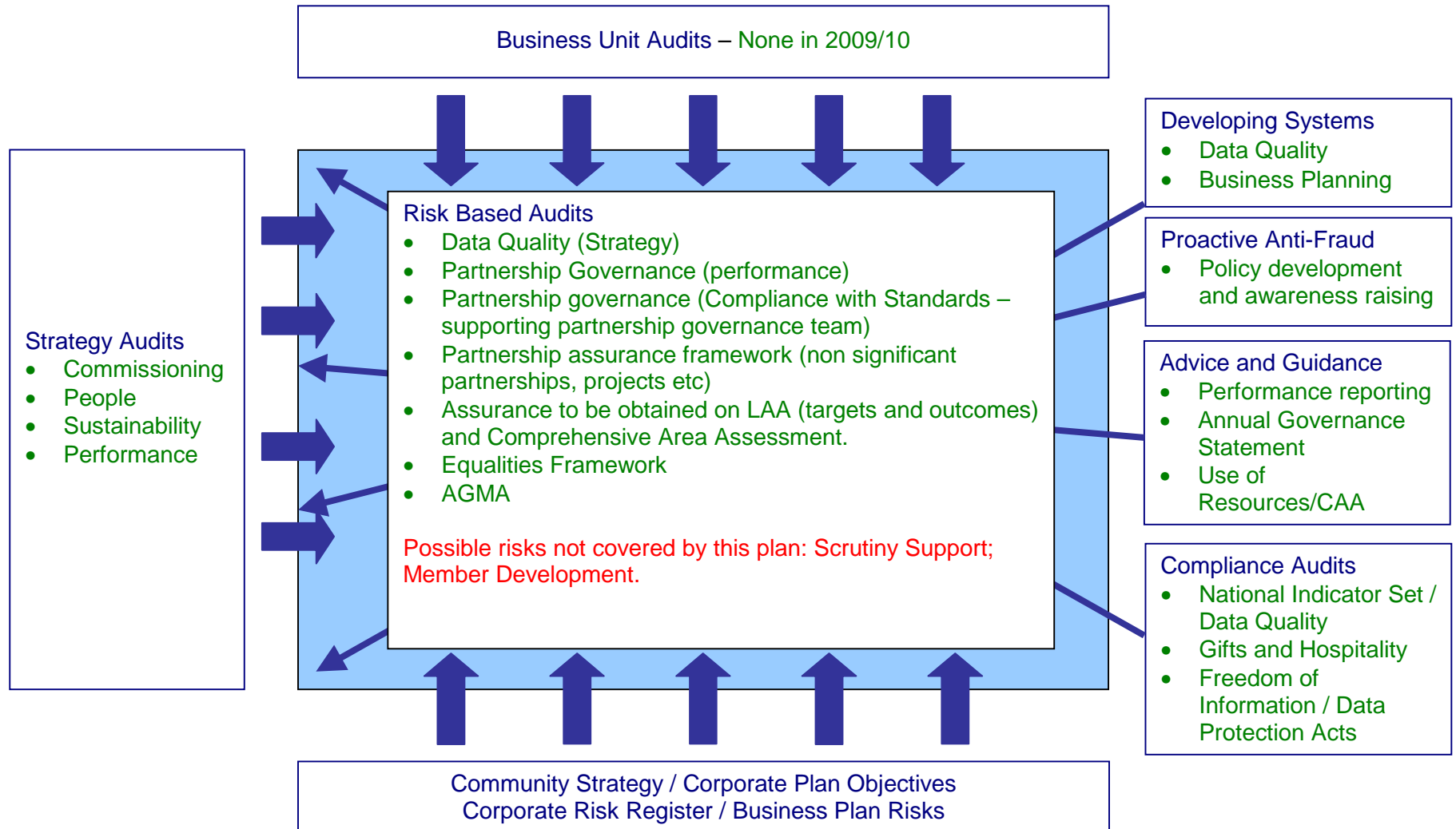
4.8. The plan has been compiled to reflect the Strategic Management Team and Directorate structure in the Council as follows:

- Governance and Performance: Chief Executive, Deputy Chief Executive (Performance) and City Solicitor.
- Children's Services: Director of Children's Services.
- Corporate Services: City Treasurer.
- Neighbourhood Services: Director of Neighbourhood Services and Director of Adult Social Care.
- Manchester Improvement Programme and ICT: Director of the Manchester Improvement Programme.
- Regeneration: Deputy Chief Executive (Regeneration).

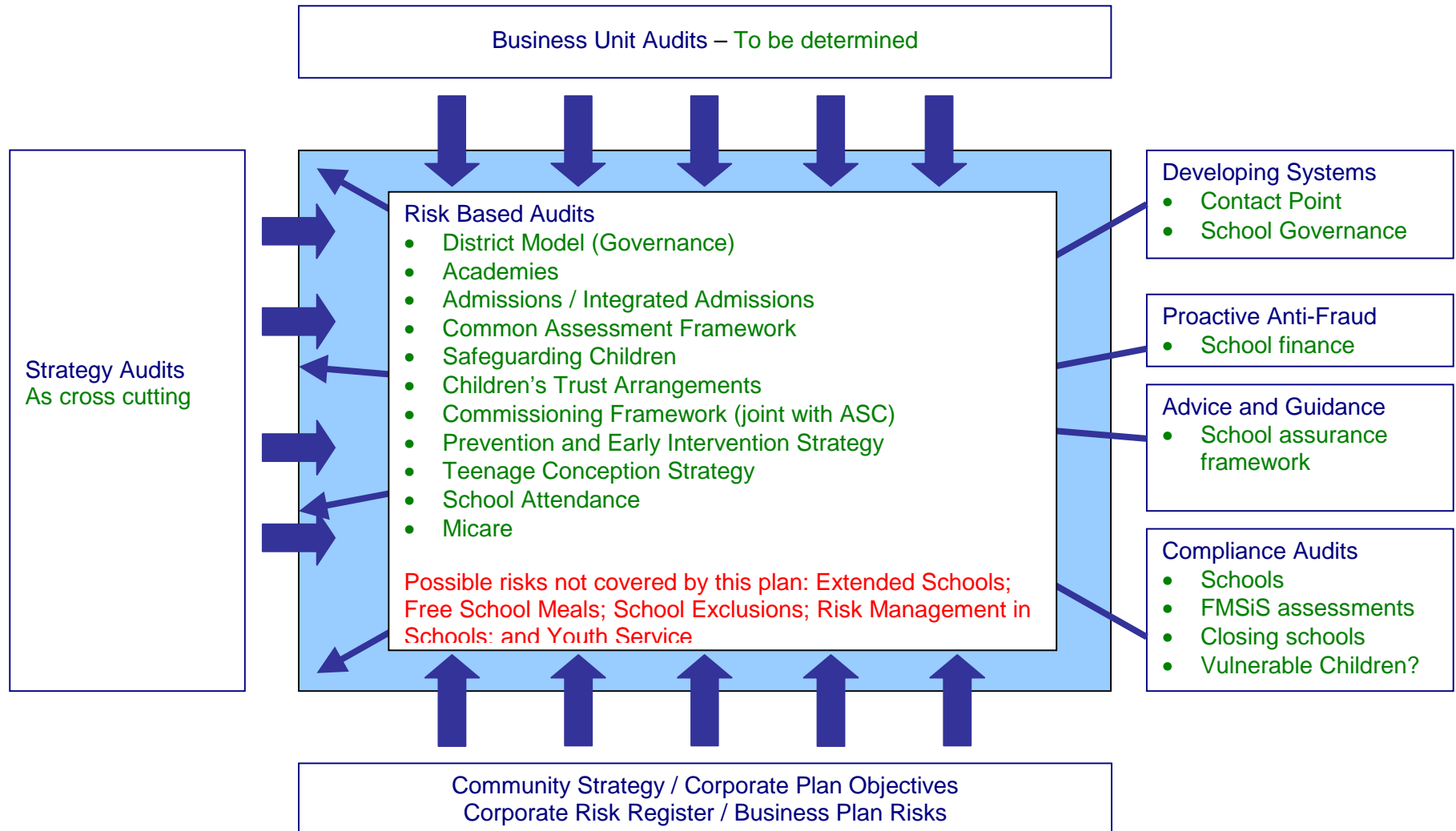
Emergent Plan Content

4.9. Within this framework an emergent work programme has been developed. Consultation is ongoing with directorate management team meetings and a report to Centre Management in early April. The content as is being presented to management teams is set out below for Audit Committee comment and consideration.

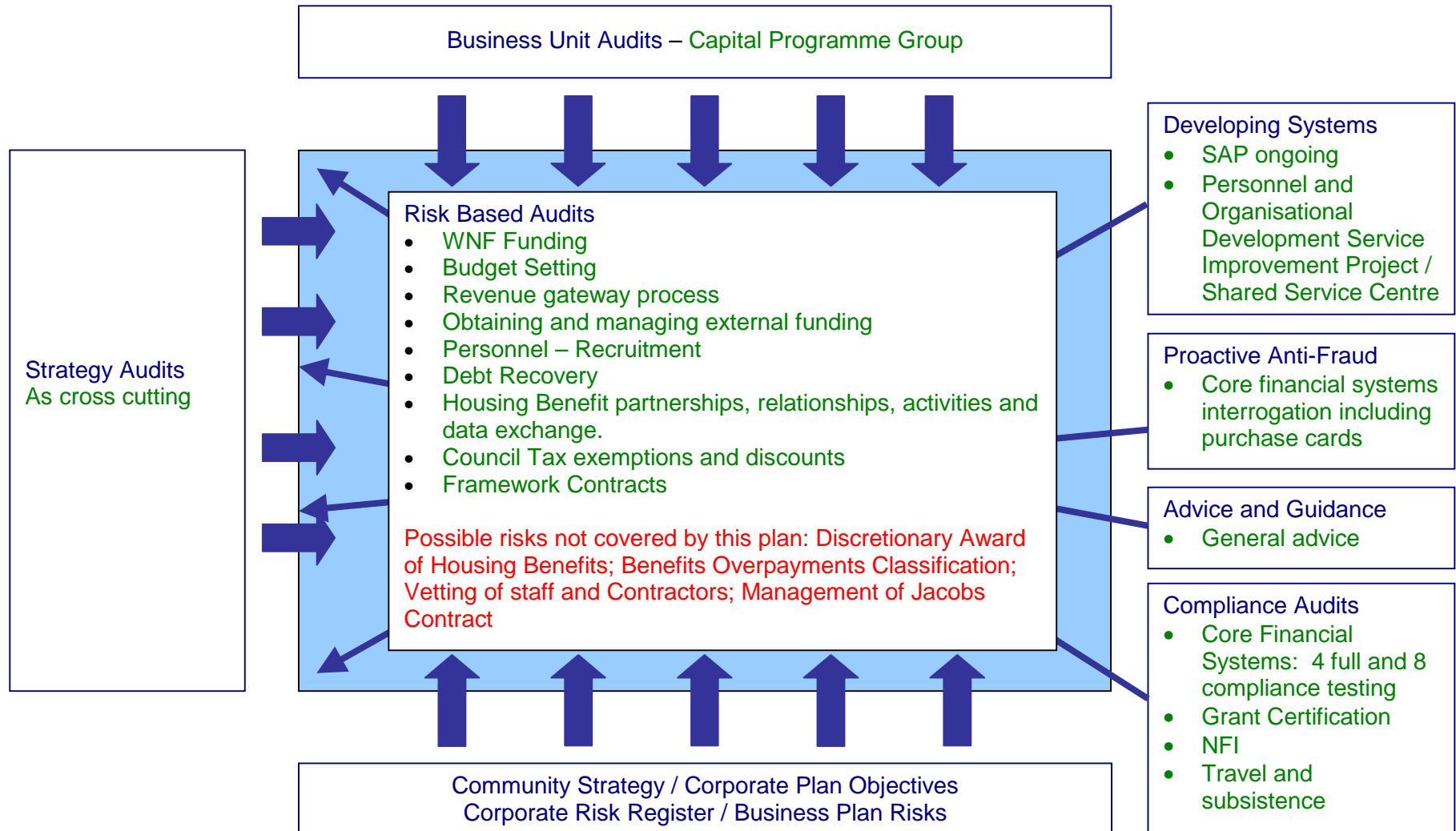
1. Governance, Performance and Cross-Cutting



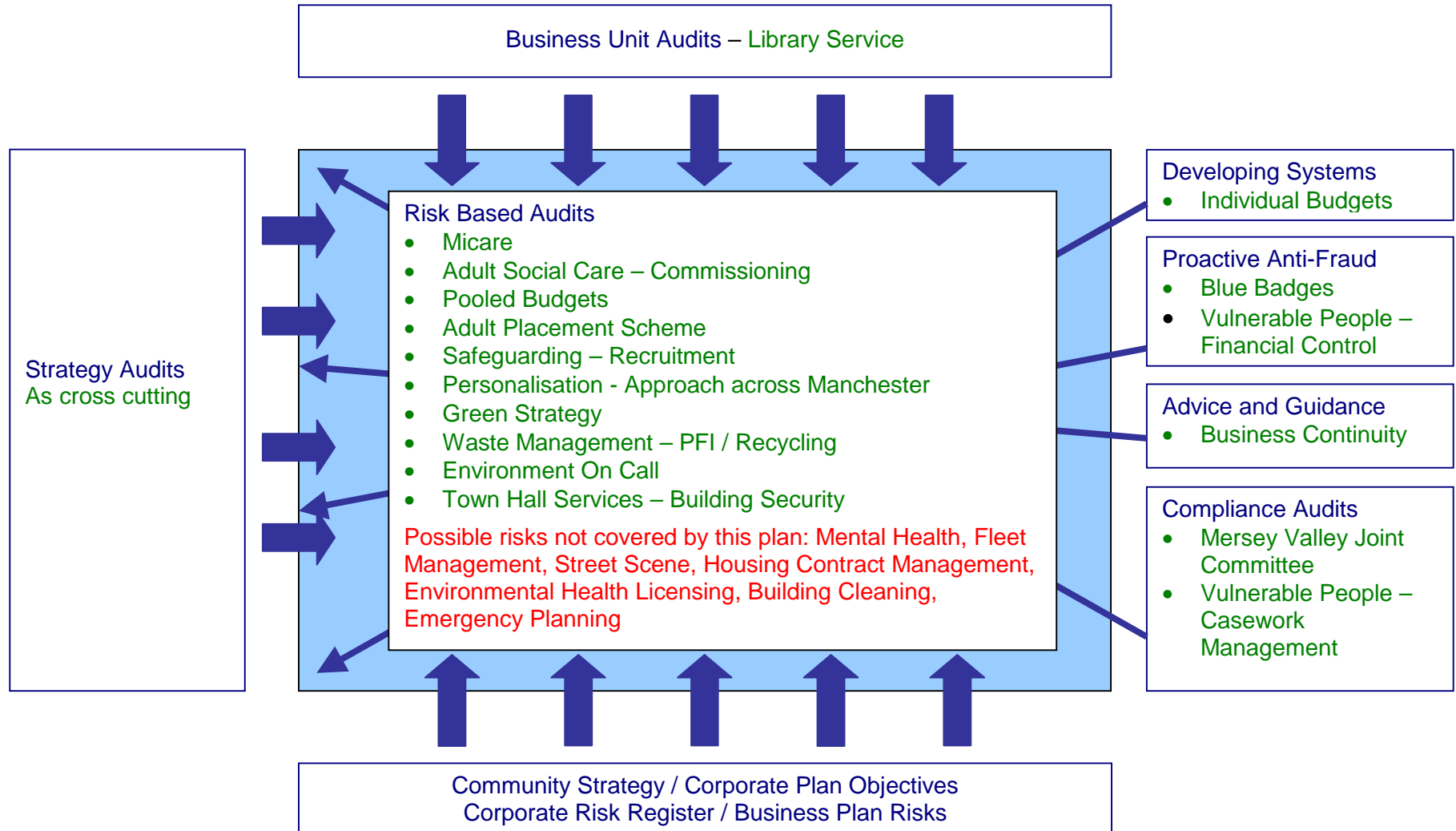
2. Children's Services



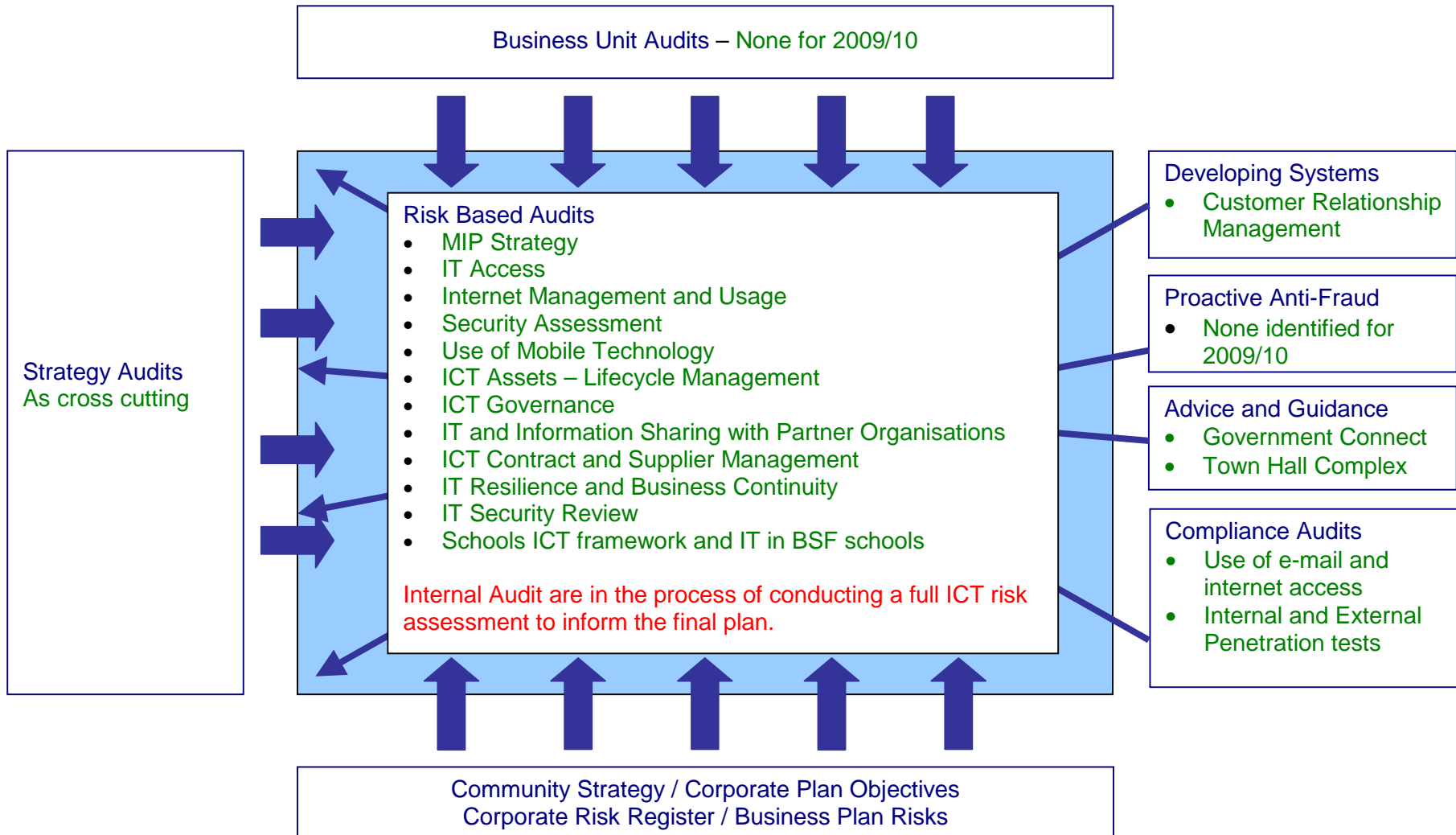
3. Corporate Services



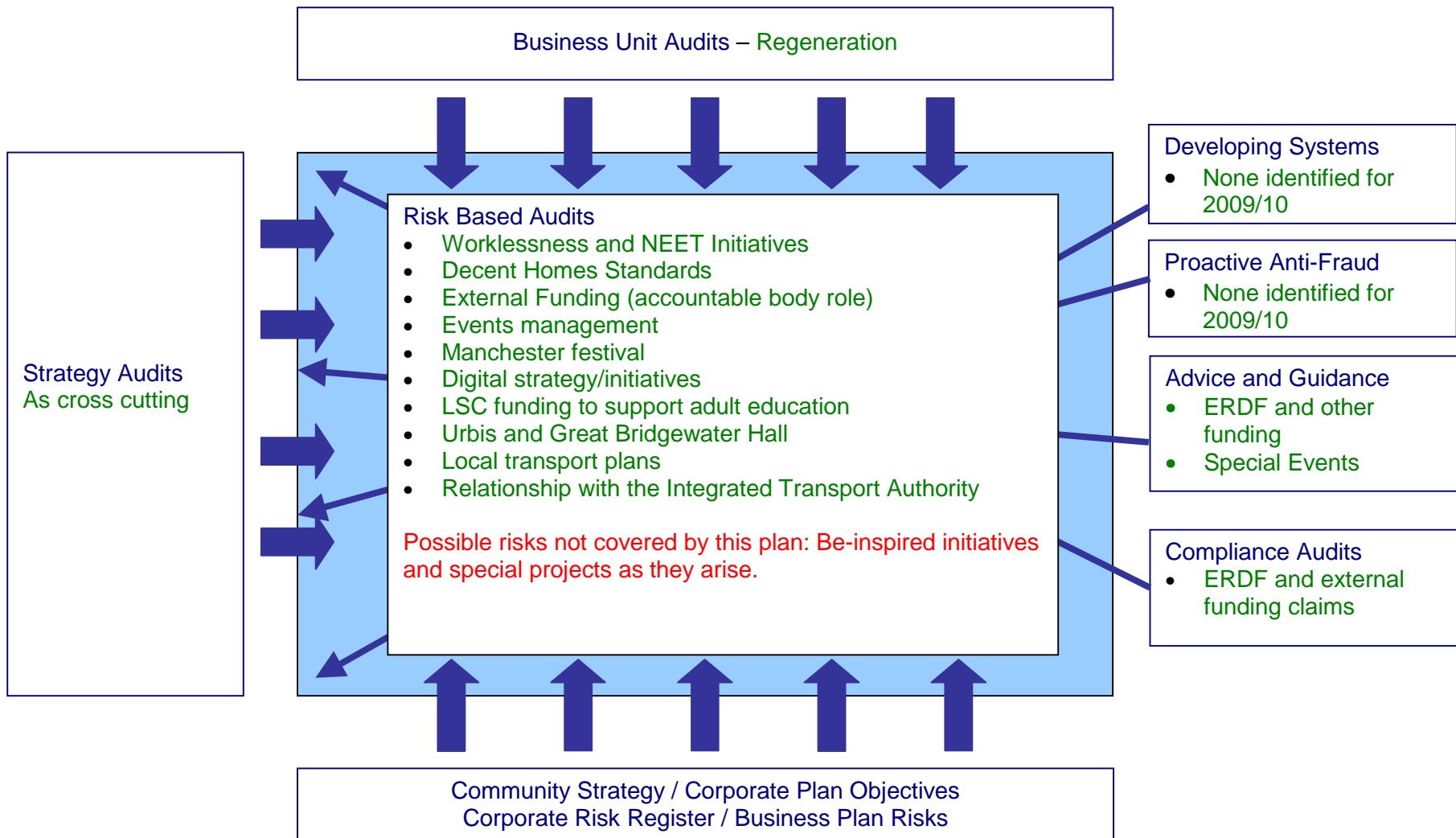
4. Neighbourhood Services



5. Manchester Improvement Programme and ICT Service



6. Regeneration



5. Next Steps

5.1. The next steps from this report are as follows:

- Feedback from the Audit Committee will be considered in the development of the proposed strategy and audit plan.
- A proposed strategy will be presented for approval by Members in May 2009.
- A proposed annual audit plan for 2009/10 will be presented for approval by Members in May 2009.
- As noted in the progress report for 2008/09, it is anticipated that work on the delivery of the 2008/09 audit plan will continue into April. As a consequence, it will be possible to commence delivery of the audit plan for 2009/10 in May 2009, in advance of formal consideration of the final plan by Members.

Appendix 1 CIPFA Code of Audit Practice

The following is a full reproduction of the text from the 2006 CIPFA Code of Audit Practice (Section 7)

Section 7.1 Audit Strategy

- The Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.
- The strategy can be presented as a document in its own right or integrated into an existing document, such as the business or service plan. It sets the context within which more detailed plans can be developed. The strategy should be kept up to date with the organisation and its changing priorities.
- The strategy will communicate the contribution that Internal Audit makes to the organisation and should include:
 - Internal Audit objectives and outcomes
 - how the Head of Internal Audit will form and evidence his or her opinion on the control environment to support the annual Statement on Internal Control
 - how Internal Audit's work will identify and address significant local and national issues and risks
 - how the service will be provided, ie internally, externally, or a mix of the two the resources and skills required to deliver the strategy.
- The strategy should be approved, but not directed, by the audit committee.

Section 7.2 Audit Planning

- The Head of Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy. In preparing the plan, the Head of Internal Audit should take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes. Where the outputs from those processes are not judged to be sufficiently reliable, the Head of Internal Audit should undertake his or her own risk assessment. The Head of Internal Audit should consult stakeholders on the draft plan and revise the plan if appropriate.
- In order to compile the plan, there must be a clear understanding of the organisation's functions and the scale and breadth of potential audit areas.
- The audit plan should be fixed for a period of no longer than one year. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work.
- The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.
- Once the planned work has been determined, this should be compared to resource availability. Where there is an imbalance between the two, the audit committee should be informed of proposed solutions. The audit committee should approve, but not direct, the internal audit plan.
- The Head of Internal Audit is responsible for the delivery of the audit plan.

- Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the audit committee.