

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee - 26 March 2015  
**Subject:** Head of Internal Audit Annual Opinion 2014/15  
**Report of:** Head of Internal Audit and Risk Management

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**Summary**

This report provides Members with the Head of Internal Audit and Risk Management's Annual Opinion on the Council's systems of governance, risk management and internal control.

**Recommendations**

Members are requested to consider and comment on the Head of Internal Audit and Risk Management's Annual Opinion for 2014/15

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**Wards Affected:**

None

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**Background documents (available for public inspection):**

Internal Audit Plan 2014/15  
Internal Audit Quarterly Assurance Reports 2014/15  
Review of Effectiveness of Internal Audit 2014/15

## 1. Background to report

1.1. Public Sector Internal Audit Standards (PSIAS) sets out the requirement for the Head of Internal Audit and Risk Management (Chief Audit Executive) to report to officers and the Audit Committee (The Board) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Council.

1.2. This report provides the Head of Internal Audit and Risk Management's assurance opinion on the adequacy and effectiveness of the Council's internal control arrangements for the year April 2014 to March 2015. The report highlights matters for consideration and refers to plans for further assurance activity in areas of concern. The report is broken down into an overall opinion and a summary of assurance in business areas. The extent and direction of audit coverage is driven by assessment of risk and, by necessity, available resources.

1.3. The annual opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control and is reported along side the Review of Effectiveness of Internal Audit. A detailed Internal Audit outturn report for all activity in the year will be reported to the Audit Committee in July to fulfil the requirements of the Accounts and Audit Regulations and PSIAS.

## 2. Overall Opinion

2.1 Overall governance, financial management arrangements, core systems and processes across the Council remain sound. Priorities and objectives are set through a clearly defined process that links budget, business and workforce planning with multiple layers of officer and Member challenge and scrutiny. There are many areas of innovation and excellence in risk and control as reflected in areas such as partnership working, devolution, reform, regeneration and city wide resilience.

2.2 However there are some key areas where improvement is required. In all of these the risks and issues are understood, improvement plans are in place with associated investment of resources and there is a positive capacity to improve. The delivery of improvement plans is underway but the risks that are presented in these areas currently impact on the overall level of assurance that can be provided for 2014/15.

2.3 The key governance, risk and internal control issues of which the Head of Internal Audit and Risk Management was made aware during the year and that impact the overall opinion related to:

- Children's Services - The Ofsted inspection in July 2014 reported an overall opinion that arrangements in place for Children's Services in Manchester were inadequate. As a result an independently chaired Improvement Board was established and an Improvement Action Plan developed to address the main recommendations made in five key assessment areas. Capacity and resources, senior management oversight and operational systems have been strengthened, including interim appointments and external support. Actions are underway to

address areas such as Child In Need backlogs but sustained focus on delivery of plans must be maintained to ensure that the risks raised by Ofsted are fully addressed.

- Children’s and Families Compliance – A number of limited assurance opinions were issued in the year in respect of Childrens and Families as referred to later in this report. These were in areas where management were largely aware of risks and concerns, particularly in the delivery of operational services, and audits were intended to help drive improvement in the face of increased demand, change and reduced resources. Nonetheless this is a cause for concern to be addressed with follow up planned in early 2015/16.
- Within ICT there remain key challenges to be addressed in terms of security, resilience, bringing more applications to the latest upgrade versions and the prioritisation of projects to provide infrastructure resilience and support the transformation to the scale of Council ambitions. There have been delays in the delivery of key projects including the data centre move, Public Services Network compliance and Digital Workplace Strategy that were originally planned for completion by year end. Plans to address this slippage have been established, external support is in place and a new senior management structure is due to be approved this month. In addition an updated ICT strategy, governance arrangements and new operating model are being developed to respond to these key risks.
- Continued progress has been made in year in developing information governance, information security and data protection arrangements across the Council. Despite positive developments a consensual audit by the Information Commissioner’s Office in December 2014 assessed the Council’s arrangements as limited. In response an action plan has agreed and implementation of recommendations is underway and will form part of an annual Information Risk Assessment and Assurance Plan to be agreed by the Corporate Information Assurance and Risk Group in April 2015.

2.4 In the year we have issued a number of “limited assurance” opinions but have not issued any “no” assurance opinions. Where our audit work has highlighted areas for improvement recommendations have been made to address the risk and management action plans agreed or advice and guidance has been given to make changes.

2.5 The context in which the Council operates remains a fundamental challenge to corporate objectives and delivery. Savings plans have been established for 2015/16 which will have further significant impact on the way the Council operates. Whilst the Council remains well placed to respond, the scale and pace of change required including reduced levels of resourcing and organisation change remains a fundamental risk to the control environment and needs to be effectively managed.

2.6 There is unprecedented opportunity presented by changes in partnership working across health with additional opportunities presented by agreements supporting a Greater Manchester (GM) approach to public service reform and fiscal devolution, as well as business rates growth retention. These developments enable the Council, AGMA and partners to make fundamental changes to the design and delivery of public services at scale and deliver improved outcomes within total available resources. We have worked actively with management to identify and

examine these areas of potential risk and support them in anticipating future risks and challenges in the current year and beyond.

2.7 In conclusion the Head of Internal Audit and Risk Management can provide **moderate** assurance that the Council's governance, risk and control framework is generally sound and operated reasonably consistently.

### **3. Corporate Core**

#### **Performance Division**

3.1 We have been assured over activity to support the 2015/16 business planning framework with Directorate business planning linked to budget and savings plans. Plans have been subject to officer challenge and Member scrutiny and are used to inform directorate workforce development planning.

3.2 Performance reporting remains robust with regular reports to SMT, officer groups and Members. These cover the full range of City wide and Council activity, highlighting areas of positive development such as successes in channel shift, tax collection and dealing with troubled families and complex dependency. The annual governance statement process remains robust and ensures that a full spectrum of governance challenges and opportunities are considered and addressed formally by senior officers and Members.

3.3 Public accountability remains strong and additional information published in 2014/15 in response to Transparency Code requirements and clear democratic and decision making processes in place which now include webcasting of key Member meetings. There are clear systems and processes for complaints, Freedom of Information and Subject Data request handling although it is acknowledged that further work can be done to achieve more consistent levels of timely responses.

3.4 Through membership of the AGS Working Group Internal Audit contributed to the annual review of the Council's register of significant partnerships, including risk scores and self-assessments. Engagement with Link Officers has improved, with the submission of fuller, better quality information at an earlier stage than previously.

3.5 Resources allocated to audit the current Troubled Families programme were redirected to support implementation of the Troubled Families (TF2) expanded programme. We organised and hosted a workshop for GM Internal Audit teams to determine their audit approach; ensure consistency and understanding and then represented GM at a CLG meeting of high performing authorities to discuss and feed back on the new policy and claims process. TF2 introduced additional measures and judgement based criteria which are likely to require more audit time and resource to certify, and we will continue to advise on assurance requirements as systems are developed. We certified the September Troubled Families payment by results claim by the submission date with no need for amendment.

#### **City Solicitors**

3.6 We completed work on the transfer of historical birth, death and marriage

registers from Heron House to Central Library, and gave full assurance over the effectiveness of transfer arrangements.

3.7 Election planning arrangements continue to engage key officers and partners, with key risks around ICT, security and business continuity being overseen and managed robustly by relevant officers and stakeholder groups.

### **HR/OD**

3.8 We did not deliver all the planned work around HROD arrangements in year as changes in approach, systems and strategies meant these were less relevant than other priorities.

3.9 We have provided positive assurance over the planning for VS / VER and through attendance at the Skills Development Board have remained aware of changes proposed in respect of workforce planning arrangements. Workforce skills and capacity remain a challenge to the Council and whilst we have not conducted specific audits in this area are aware of the prioritisation afforded to this risk by Strategic Management Team and Members. This is reflected in the ongoing challenge and support in respect of management of attendance which remains a key area of focus for management and Members.

3.10 Through engagement in the ESS/MSS Project we are sighted on the development of systems to automate key processes such as overtime, expenses and payslips which will continue into 2015/16.

### **Communications and Customer**

3.11 We continue to provide assurance over the operation of the BDUK Superfast Broadband Connection Voucher scheme. We carried out a number of visits to successful applicants' premises to obtain direct assurance over the supply of services, and raised concerns over potential risks with landlord operated schemes. We also continue to monitor monthly updates on pre-registered package uptake and can provide substantial assurance over the Council's processes under this scheme.

3.12 We completed the audit of M4 Secure Printing audit providing substantial assurance over the secure processing and printing of sensitive documents.

### **ICT**

3.13 Responsibility for strategic management of ICT was moved to the Deputy City Treasurer during the year. There have also been a number of changes in senior management and the Head of ICT left the Council in March.

3.14 There were a range of issues and risks raised with audit in the period and a number of challenges for service delivery that remain critical to ICT given its requirement to deliver a number of key infrastructure projects. The scale of the work required to deliver these projects cannot be underestimated and ICT are continuing to review the scope, funding, capacity requirements and interdependencies of each project. Key areas of focus remain the exit from Daisy Mill, desktop refresh and

Public Service Network Compliance, all of which present continued risks to the Council.

3.15 In the review of External Connections Internal Audit were only able to provide limited assurance over the security of external connections to the Council's network as there was a lack of robust control in many aspects of the provision of these connections. A number of these risks should be addressed through the PSN Project but we also plan to review broader security arrangements in 2015/16 to ensure these are being addressed.

3.16 Given the scale of challenges our focus has been on support and investigation of key risks rather than operational audit work. To support the service moving forward, external resources have been commissioned and a working group including the Head of Audit and Risk Management, reporting to the Deputy City Treasurer, was established in December to help address a range of people, procurement and process issues raised in the year. Plans have been developed to respond to risks in the delivery of key projects with regular updates provided to a new ICT Board and Finance Scrutiny Committee to ensure progress is being maintained.

### **Corporate Services**

3.17 The annual programme of Core Systems audits provided assurance over a range of systems and there were no significant concerns raised. For most of the systems a substantial or full assurance opinion was provided. Risk Based Verification was introduced for benefit claims and whilst this is still at an early stage we were assured over the proposals and plans for this and will conduct follow up work in 2015/16 to confirm compliance.

3.18 The financial accounts were completed to deadlines with positive assurance provided over the content of the Council's financial statements and the certification of grants by external audit. There are no specific risks from the 2014/15 External Audit Plan that indicate concerns over the Council's financial governance or controls.

3.19 We concluded our work on payments made to One Time Vendors (OTV) in SAP. We confirmed that all payments we reviewed were legitimate but that there was a need to better document decision making to support transactions and proposed a number of immediate and long term recommendations to address risks.

3.20 In our review of Revenue Framework Contract Management we highlighted that guidance and training was required for framework contract managers to ensure that frameworks are effectively managed and monitored. This is particular pertinent given the dismissal of a manager for irregularities in the operation of a framework contract during the year.

3.21 We have worked closely with the Project Manager leading the project to transfer the Council's banking arrangements and accounts to Barclays. We can provide positive assurance over the project preparation, planning and management of risks that have been reported to Audit Committee in the year. Our work will continue over year end to help ensure that the transfer is successful and the Council continues to be able to make payments and receive monies.

3.22 As in previous years we continued to identify and respond to risks around cash management and control in local offices reporting to management for action as required. We investigated a number of allegations into cash handling including reports of loss and theft. Work to rationalise the use of cash across Children's Services and Families, Health and Wellbeing continued through the year and we continued to offer advice and support in this process. None of these issues are significant in financial terms but we continue to provide challenge and support given the inherent risks involved in cash management.

3.23 Delivery of savings remained a key priority with robust arrangements in place to identify, approve and monitor achievement during the year and identify priority areas for future savings. Assumptions made in the establishment of savings targets have been revisited in a number of areas and compensating proposals for cost reduction and income generation identified to ensure delivery of a balanced budget. Whilst the challenge of securing savings whilst delivering priorities and objectives remains a high risk, as reflected on the corporate risk register, arrangements for the governance of savings continue to be an area of positive assurance.

3.24 Other finance-related work in the year included the certification of a range of ERDF, EU and Central Government grants which we confirmed and approved as compliant with grant conditions.

#### **4. Children's Services**

4.1 There was an Ofsted inspection during the summer of 2014 and this resulted in an inadequate assurance opinion being provided as a result of serious concerns raised across five areas of assessment.

4.2 There were major changes undertaken following the inspection including appointment of a new interim Strategic Director; changes in senior management; establishment of an Improvement Board; and development of an Improvement Action Plan to urgently address recommendations made in relation to key weaknesses across the Children's Services Directorate. A performance tracker is now in place with monitoring and reporting on all the key metrics to an Improvement Board which is independently chaired, who has produced the first of a series of six monthly progress reports to the DfE. These plans are also being monitored by monitored by SMT, Executive Members and Scrutiny Committee to ensure there is sufficient and appropriate progress. As a result of the Ofsted outcome and action plan we revised our remaining audit plans and are currently undertaking a review of the Children's Services Improvement Plan delivery to provide support with implementation.

4.3 The Manchester Safeguarding Childrens Board (MSCB) was also judged to be inadequate. The early help offer, which is crucial to reducing excessive volumes of referrals from partners which negatively impact the effectiveness of safeguarding systems, cannot be delivered without leadership from partners. A new chair of the MSCB who started in July and has made progress but the requirement for leadership from partners remains a key risk.

4.4 We issued a number of limited opinions in Children's Services in the year in

areas of concern. A number of these are to be picked up through the Ofsted Improvement Plan and we will follow up progress on others early in 2015/16.

4.5 For the Youth Offending Service (Commissioning) audit we provided limited assurance due to the lack of documented, signed and up to date contracts and waivers, limited performance objectives linked to service objectives and the lack of contract monitoring arrangements. This made it difficult to assess value for money and effectiveness of the positive outcomes achieved.

4.6 In our review of delegated decision making we assessed whether Children's Safeguarding decisions were being made in line with the approved delegated authority list. We provided moderate assurance because of inconsistency in the approach taken to document some key approvals; a lack of clarity over the type of decisions to be made by individual officers; concerns over the timeliness of approval for emergency section 17 cash payments; and a lack of recording decisions.

4.7 In Quality Assurance Children's Safeguarding we concluded that significant progress had been made in developing a framework since our last audit of casework activity. However there was still substantial work needed to embed a fully effective and efficient assurance framework.

4.8 We provided limited assurance over the Manchester Common Assessment Framework (MCAF) but were able to provide a positive capacity to improve because of the clear action plan to address the issues and short timeline for this implementation.

4.9 For Free Early Education Entitlement we could provide only limited assurance for the Assurance Framework and Compliance audits. Whilst the Project Lead had identified the need to gain assurance over arrangements in place with providers and management and staffing structures had been developed to support this there had been limited numbers of visits and little evidence that these had driven improvements in performance or compliance at providers.

## **5 Families, Health and Wellbeing**

5.1 We gave moderate assurance over the effective completion of adult social work assessments and reassessments. We identified three key issues which precluded a substantial assurance opinion: the need to strengthen the assurance processes; the need to clearly evidence customer engagement and agreement with assessments; and the appropriateness of the Resource Allocation System (RAS) for Learning Disability cases. In response and to help address the risks in this area a full redesign of the RAS is now being delivered with external support. It is also positive that management have commissioned a wider, full peer review of adult social care to identify and respond to areas for potential improvement.

5.2 For Casework Management Adults Safeguarding we provided a moderate assurance that the case management of adult safeguarding incidents was dealt with in accordance with approved policies and procedures. Although we were satisfied there had been year on year progress to improve the standard of recording there were still a number of areas that require improvement, particularly around the

management assurance process. We were concerned that the timeliness of activity and recording had deteriorated from our last review of this area in 2011/12. Notwithstanding this, the latest findings indicated that those social workers who had embraced the changes and improvements made over the last few years, including engagement with the Safeguarding Team, had continued to improve standards of recording. Accordingly we found that in a sixth of the cases we examined the recording of activity was very good with clear examples of best practice.

5.3 Moderate assurance was provided over the effectiveness of the Council's existing monitoring arrangements for the commissioning of social care services from Manchester Mental Health Trust. There had been delayed implementation of a quality assurance process to assist with known performance issues within the Trust and a need to make better use of performance information to help identify how to improve services.

5.4 The first phase of the 2014/15 work in relation to Safeguarding Compliance for the Mental Health Trust (the Trust) was completed in June and an Advisory Report subsequently issued. This was a collaborative piece of work with the Trust's auditors, Mersey Internal Audit Agency and we identified a small number of system improvements needed. In the second phase of work we assessed compliance over the safeguarding systems and processes in place and provided substantial assurance with a number of improvements made and instances of good practice noted. This was a major improvement from a limited assurance opinion issued last year.

5.5 For Learning Disability Support Plan Casework we provided limited assurance over the arrangements for the casework management of support planning for adults with learning disabilities. Further work is required to strengthen the assurance processes utilising management information, likewise standards of evidencing service user agreement with support plans along with the absence of documented approval of changes to funding arrangements needs improvement.

5.6 For Staff Deployment in Supported Living Accommodation we provided management with limited assurance over the effectiveness of arrangements for the training and deployment of staff. Management had ensured that members of staff were in place to support service users. However, the training of these staff had previously been allowed to wane and, based on the records available staff were insufficiently trained in key aspects of their role.

5.7 We provided substantial assurance over the effectiveness of the system for contract monitoring and management for homecare provision. Management had ensured that there was a sound system of control, particularly with regard to complaints. Although there were some areas where improvements were required, notably timeliness and quality of recording and analysis of expenditure, they did not undermine the overall integrity of the system.

## **6 Growth and Neighbourhoods**

6.1 For Communal Heating Income Management we provided limited assurance over the arrangements for identification, collection and recovery of prepayment

income for communal heating schemes. Managers responded positively to our recommendations for improvement which aim to address weaknesses in the financial systems.

6.2 External Audit work required by HCA confirmed our opinion that the Decent Homes Grant claim amount had been fairly presented and was supported by appropriate evidence of spend.

6.3 We gave substantial assurance in relation to the Waste Disposal Levy Payments process and arrangements for confirming the accuracy and timeliness of payments. We made one recommendation for improvement, to ensure that business continuity is maintained in the event of staff absence but otherwise the system was found to be robust

6.4 In the report of our work reviewing capital final accounts we were satisfied that final account submissions were subject to scrutiny and challenge but there was a need to retain sufficient documentation on file to support the agreed final account figure. We also identified issues around the current cost model for pricing works and instances where work began on projects in advance of the client agreeing the cost. A Programme Management Office that is proposed to be introduced and a wider review of the service being undertaken by the Director of Capital Programmes and Property should address the issues we raised.

6.5 Following past concerns raised over cost and charging models we continue to work with the Licensing team to examine their existing business processes, particularly with regard to processing of new taxi driver applications. Audit work will continue in this area to support the Head of Service to improve and assure arrangements across various aspects of licensing activity.

## **7 Anti Fraud and Investigations**

7.1 The Council continued to operate a zero tolerance policy in relation to fraud. No organisation can guarantee that it will be free from fraud or financial irregularity, the extent of which can be a measure of the effectiveness of internal controls. Following an assessment of risk in each case we carried out a number of investigations referred to the Service, either independently or by offering advice and support to managers and investigating officers in carrying out their own reviews.

7.2 To date in 2014/15 there have been 60 cases of potential fraud or irregularity referred to Internal Audit, of which 39 were handled under the Council's whistleblowing procedures. Cases that Internal Audit have investigated or supported have included allegations relating to:

- contractor performance and theft by third parties;
- contract compliance;
- overpayments to service providers;
- irregularity in the use of grants and payments;
- loss / theft of cash and assets from Council / school premises;
- theft of cash from service users; and
- financial irregularity / mismanagement.

7.3 Investigation reports were provided to relevant managers and recommendations for action including disciplinary review and /or system improvements made as necessary. Where appropriate these were referred to the police to consider criminal prosecution which is going ahead in several cases. Internal Audit supported these processes with witness statements and evidence as appropriate. Recovery of missing cash is a key consideration in these cases and will be pursued as part of the process in all three currently with the courts. Further details about cases including outcomes where they are known will be reported more fully to Audit Committee in July 2015 as part of the Annual Fraud Report.

7.4 In terms of proactive work we continued to coordinated the Council's response to the National Fraud Initiative which identifies potential fraud or irregularities based on matched data sets with other authorities from which cases are investigated and actions taken as appropriate. The data matches for the current exercise have now been received and we are working with designated colleagues across the Council to ensure that action is taken to address potential areas of fraud or irregularity. Results will be reported on the NFI website as well as reported internally for managers and Audit Committee consideration. Other proactive work included continued success in the identification and recovery of overpayment and duplicate payments.

7.5 Overall the level of proactive anti-fraud and related work undertaken in Internal Audit and across the business is appropriate and outcomes have been positive in a number of cases. Some remain live and the results of criminal prosecutions are not yet confirmed. However there is more work to do to enhance our counter fraud activities and to continue to assess the risks. A recent DCLG grant bid was successful and funding will be used to identify and develop areas for proactive counter fraud activity and collaboration opportunities with GMCA and Bolton Council. Progress on this will be reported to DCLG and to Audit Committee.

## **8 Recommendation Monitoring and Implementation**

8.1 During 2014/15 key performance indicators were reported through the Council's Performance Management Framework and there was positive engagement with managers on implementation challenges. At the end of December 2014 Internal Audit confirmed that 49% of critical, major and significant recommendations from reports had been implemented or mitigated by other means with a further 11% partially implemented. This is a concern and an area we will focus on with Strategic Directors and Directorate management teams in 2015/16 to ensure that exposure to risk is addressed effectively.

## **9 Conclusion**

9.1 This summary opinion relates to audit activity in 2014/15. Members are requested to note the assurance opinion and activity, and to consider whether or not there are any matters which have been raised which require more specific consideration by the Committee or referral to the appropriate Scrutiny Committee.