
**Manchester City Council
Report for Information**

Report To: Audit Committee - 24 September 2015

Subject: Internal Audit Progress Report 2015/16

Report of: City Treasurer / Head of Audit and Risk Management

Summary

The Internal Audit Section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Council. This work culminates in the Annual Head of Internal Audit Annual Opinion and an Annual Assurance Report. This report provides a summary on the work undertaken and audit opinions issued in the five months to August 2015.

Recommendations

Members are requested to consider and comment on the Internal Audit Assurance Progress Report to August 2015.

Wards Affected:

All

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Background documents (available for public inspection):

Documents used in the development of the assurance report include:

- Internal Audit Plan 2015/16 (July 2015 Audit Committee)

Internal Audit Assurance Report - Five Months to August 2015

Introduction

- 1.1 This report provides a summary of the work of the Internal Audit Section from April to August 2015 reporting progress with delivery of the annual audit plan and overall progress in the implementation of recommendations. It includes a summary of the assurance opinions issued on completed audits and level of exposure to risk arising where recommendations are outstanding. The opinions and statistics are provided to Directorate senior managers for discussion and agreed actions and are used to provide an overall annual assurance opinion.

2. Audit Programme Delivery

Plan Delivery

- 2.1 The following table summarises the outturn against the audit plan to date. Outputs include audit reports, management letters and advice and guidance as well as support to management on service improvement. It also includes reactive fraud and irregularity investigation reports for work requiring more than five days of audit support or where an opinion was provided. The analysis excludes most of the advice and guidance provided to the business through involvement in working groups and projects across the Council as these were not captured in formal reports. Figures include completion of brought forward work in the first quarter as agreed with managers.

Audit Status	Audit Plan Outputs	Additional and Contingency Items
Final Report Issued *	33	7
Draft Report Issued	9	
Fieldwork Completed	12	
Fieldwork Started	13	1
Planned	14	4
Cancelled / Deferred	1	

* Includes audits from 2014/15 finalised in 2015/16

Deferred relates to a grant for which certification deadline has moved to August 2016.

- 2.2 The number of audits carried out during the year increases as the blocks of time allocated for areas of work are broken down and used to support the business and provide assurance over key activities. The flexibility offered by

the audit plan allows for some adaptation and resourcing of targeted work while maintaining progress toward delivery of planned assurance activities.

2.3 The sections below describe the progress made against the annual audit plan.

3 Children and Families

- 3.1 For the Free Early Years Education: Assurance Framework audit Internal Audit gave limited assurance as arrangements to gain assurance over providers were being formed and not yet able to demonstrate support for service improvement or compliance. Internal Audit agreed to give advice on assurance processes being introduced in September to support new provider agreements and to provide guidance to the Team on the compliance audit approach. This work should provide further assurance over how the risks identified in the audit are being addressed
- 3.2 An audit of Educational Operational Services; Statutory Assessment Team provided moderate assurance over developing arrangements to allow delivery of revised responsibilities over Education Health Care Plans (EHCPs). Recommendations were accepted however we consider resources may not be sufficient to deliver on proposed arrangements and we advised that this is reviewed during the year to ensure that commitments can be delivered
- 3.3 Our Internal Foster Care Placements audit, which identified risks around management of foster carer availability, contacting and retaining potential foster carers resulted in moderate assurance.
- 3.4 Substantial assurance was provided in the draft audit report on Ofsted Social Care Improvement Plan Delivery. This was based on the fact the actions we tested were implemented as reported. Progress with delivery was being made and governance structures enabled delays and blockers to be addressed. Nevertheless, as noted at the Improvement Board and as referred to in the External Auditors ISA260 report, substantial further work was needed to achieve all actions and required improvements which is fully recognised by management.
- 3.5 Limited assurance was given to management over the use of the Secondary Pupil Referral Unit's Alternative Provider Framework due to concerns over the process for allocating pupil places using the framework. We were concerned that approval levels for the Head Teacher gave Governors insufficient opportunity to oversee arrangements and that using high levels of pre booked places with some suppliers and subsequent under use of those places will affect value for money.
- 3.6 We are awaiting management responses to the recommendations for the three reports above to finalise action plans and assess the capacity to improve. Senior management have confirmed actions are already underway and we are aware of steps being taken to respond to a number of these risks so are confident that all reports will be finalised shortly.
- 3.7 Fieldwork was completed for Disclosure and Barring Service Checks and a draft report was issued confirming a limited opinion which has been discussed

with management. We are working with management to finalise an action plan to strengthen controls and it is planned to issue as final shortly.

- 3.8 Internal Audit completed testing on Adults Safeguarding Case management and a draft report is due out shortly. Findings have been discussed with management and the details of all tests provided to enable managers to follow up and address case management issues where they arose.
- 3.9 The following provides the status of audit work carried out and additional work done along with opinions issued to date.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
B/f 2014/15			
MEAP: Contracts 01/05/15	Final Short Report	Moderate ●	Not Assessed
Free Early Education Entitlement: 26/06/15	Final	Limited ●	High
Education Operational Services: Statutory Assessment Team 27/05/15	Final	Moderate ●	High
Disclosure and Barring Service (DBS) 29/05/15	Draft	Limited ●	Set at Final
Internal Foster Care Placements 20/07/15	Draft	Moderate ●	Set at Final
Audit Plan 2015/16			
Grant Certification: Evidence Based interventions Programme 18/06/15	Final Complete And Certified	N/A	N/A
Ofsted Social Care Improvement Plan Delivery 25/06/15	Draft	Substantial ●	Set at Final
Alternative Provider Framework Contract: Secondary PRU 22/07/2015	Draft	Limited ●	Set at Final
Safeguarding Casework Management: Adults	Fieldwork Completed	Set at Draft	Set at Final
Social Care Casework – Looked After Children	Testing	Set at Draft	Set at Final
Troubled Families Phase 2 - Grant Certification	Fieldwork Started	Set at Draft	Set at Final
Manchester Mental Health Trust: Safeguarding Compliance	Planning	Set at Draft	Set at Final
Community Alarms	Planning	Set at Draft	Set at Final
Assistive Technology	Planning	Set at Draft	Set at Final

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Children Missing from Home / Care	Planning	Set at Draft	Set at Final
Grant Certification: Afghan Resettlement Project New Work	Planning	Set at Draft	Set at Final

Schools

- 3.10 In the period we finalised the two outstanding reports from 2014/15: St Aidan's RC Primary; and Chorlton C of E Primary both with moderate assurance and high capacity to improve. Four audits were completed from the 2015/16 programme providing moderate assurances for Wilbraham Road Primary and St Mary's RC Primary and substantial assurance for All Saints C of E Primary and Abraham Moss Primary and Secondary School.
- 3.11 The table below provides the progress status for the schools audit programme and opinions issued to date.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
2014/15 Plan (brought forward)			
St Aidan's RC Primary 08 /06/15	Final	Moderate ●	High
Chorlton C of E Primary 09/04/15	Final	Moderate ●	High
2015/16 Plan			
Wilbraham Primary 14/07/15	Final	Moderate ●	High
St Mary's RC Primary 15/07/15	Final	Moderate ●	High
All Saints C of E Primary 10/07/15	Final	Substantial ●	High
Abraham Moss Primary and Secondary 22/07/15	Final	Substantial ●	High

Audit Recommendations and Exposure to Risk

- 3.12 We follow up outstanding recommendations and report progress regularly to Directorate management and to SMT. The percentage of significant, major or critical recommendations implemented in Children and Families is 39% which is significantly below the target of 70%. We are reviewing the implications of this with managers and reviewing barriers to implementation.
- 3.13 For schools the percentage of significant, major or critical recommendations




implemented was 48% and we continue to explore the reasons for this with school managers. We have referred back some audit recommendations over 12 months since they were made with the exposure to risk but will also continue to offer support to schools to seek alternative solutions to address risks. For example at Irk Valley we plan a health check to support Governors and the new Head Teacher and will review outstanding recommendations as part of that work.

4 **Corporate Core**

- 4.1 Audit progress is being made in line with plans and in some areas in coordination with external audit plans. We offered substantial assurance over Treasury Management, Registrars and Coroners Financial Systems and a full assurance opinion in relation to Budget Setting based on good governance and effective transparency over decision making.
- 4.2 An audit of M4 Translations Service produced a limited assurance opinion based on a number of control weaknesses within the service related to management of resources, finance and performance. While some positive assurance was given in terms of arrangements to allocate work, meeting customer needs and achievement of income targets management have agreed that action is needed to address core governance and management processes including the appointment of freelancers and we agreed there was a high capacity to improve
- 4.3 We offered a substantial level of assurance for governance over Channel Shift (phase 2). There were clear measurable objectives supported by relevant, prioritised actions and active monitoring. Financial targets were reported to be achieved for the year. We did identify some improvements which could be made to the dashboard for reporting performance and we identified two minor errors in reported data though neither inaccuracy had a significant impact on the overall figures and we confirmed that they were isolated incidents
- 4.4 A carbon reduction grant was certified for both Bolton and Manchester Councils. Our work gave assurance that the energy usage figures presented were accurate and supports both Councils in demonstrating the effective management of the scheme to the Environment Agency.
- 4.5 Internal Audit offered advice and guidance though the development and successful launch of the MiPeople system through attendance at the board and in reviewing specific elements of the proposed processes. The project was well managed and went live as planned with no major issues. Operational queries are being addressed effectively through the MiPeople team as usage increases
- 4.6 Risk Based Verification (RBV) was introduced for the processing of benefit claims and was used for all new applications from December 2014. Internal Audit found that the RBV process was introduced with sufficient planning to ensure all users were well prepared for the changes in processing. There was some non compliance in the processing of low risk claims but we expect

compliance levels to improve once officers become accustomed to the policy and guidance. Additionally we acknowledge that RBV and a reduced level of checking on applications is a step change for assessment officers with many years experience and the routines will take time to embed. Overall, we are satisfied with implementation process for the introduction of RBV for assessing new benefits claims. We propose to do further work later in the year reviewing claims processing and the production and use of management information as part of our core systems work looking at Benefits Administration.

- 4.7 Current ICT audit focus remains at a high level with ICT security and ICT resilience remaining a key focus. ICT security is one of the three areas Internal Audit is developing as a pilot area for risk and assurance mapping in 2015. In the quarter the service successfully exited Daisy Mill and we have worked with ICT and Risk colleagues to obtain assurance over the transfer. Engagement with cabinet Office over the Council's PSN accreditation remains positive and we support the principles of the broader approach agreed with the Cabinet Office, which should achieve accreditation whilst strengthening the wider security of the Council's ICT infrastructure. This work remains in planning and we will continue to seek assurance over the finalisation and subsequent delivery of these plans. Reports to Finance Scrutiny Committee and Personnel Committee have provided Members with updates on staffing and resourcing and it is crucial that the momentum and positive progress the Daisy Mill Exit in recent months is sustained to enable the successful delivery of a range of key priorities and projects.
- 4.8 The table below reports progress on planned audit assignments for the Corporate Core and work status for 2015/16 along with remaining work finalised from 2014/15.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
2014/15 Plan (brought forward)			
BDUK Pre-Registered Packages (Grant Certification) 29 /6/15	Final	Moderate 	Not assessed
Troubled Families Expanded Programme: System Development	Field Work Completed	Set at Draft	Set at Final
Annual Governance Statement 2014/15 8/7/15	Final	Not assessed	
General Ledger 5/6/15	Final	Substantial 	Not assessed
Income Management – SAP 10/4/15	Final	Full	Not assessed
Payments – SAP 18/5/15	Final	Substantial 	Not assessed

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Payments – Other: Manual Uploads 29/7/15	Final	Moderate ●	Not assessed
Fixed Assets	Deferred	On 2015/16 plan	
Bereavement Services 28/5/15	Final	Moderate ●	High
Risk Based Verification 11/9/15	Final	Not assessed	
Change of Bank – Co-Op to Barclays	Deferred	On 2015/16 plan	
BDUK Pre-Registered Packages (Grant Certification) 29/6/15	Final	Moderate ●	Not assessed
2015/16 Plan			
Treasury Management 5 June 2015	Final	Substantial ●	Not assessed
Registrars & Coroners Financial Systems 15 July 2015	Final	Substantial ●	High
Carbon Reduction Commitment (Grant Certification) 24/7/15	Complete and Certified	Not assessed	
M-Four Translations 9 /9/15	Final	Limited ●	High
MiPeople	Field Work complete	Advice and Guidance	
ICT – review of outstanding recommendations	Field Work	Set at Draft	Set at Final
ICT Security – Assurance Mapping	Field Work	Set at Draft	Set at Final
Channel Shift Phase 2 8/9/15	Final	Substantial ●	High
Budget Setting 27/8/15	Final	Full ●	Not assessed
Payroll	Field Work	Set at Draft	Set at Final
Bailiff and Debt Recovery – Penalty Charge Notices	Planning	Set at Draft	Set at Final
Staff Appraisals	Planning	Set at Draft	Set at Final

Audit Recommendations and Exposure to Risk





- 4.9 The overall percentage of Critical, Major or Significant recommendations implemented is 41% against at target of 70%. This low level of implementation is impacted by a number of older recommendations in ICT which are under review with the ICT team to establish practical solutions and revised exposure to risk assessment and a more recent audit of Bereavement Services where we are exploring if the timescale for implementation was

unrealistic.

5 Growth and Neighbourhoods

- 5.1 We gave substantial assurance that there is compliance with established working practices for the administration of the Council's Housing Loans portfolio. Loan applications are consistently processed in line with the principles set out in the Regulatory Reform Order and supporting policies for each loan type, with land charges being registered accurately in all relevant cases we reviewed.
- 5.2 We provided substantial assurance over the operational management of parks which support delivery of management plans. The level of assurance could have been improved by strengthened evidence of reporting through line management. We were encouraged by officers' high level of working knowledge of park management, particularly those with less experience in this area. This provided a positive practical demonstration of the working model. However, we recognise that there have been two significant restructures of the Directorate over the past four years and that another is due imminently. We therefore considered that there was a need to update documented procedures and make them available to all relevant officers to refer to for guidance
- 5.3 We have provided positive certification for three grants in this period, specifically URBACT 11 (ERDF); New Growth Point and the National Trading Standards Board.
- 5.4 With regards to the Council's role in the selection of a development partner for the Oxford Road development, we attended the detailed solution evaluation meeting in early September at which a decision was taken to proceed with the only bidder and we can provide positive assurance over the scoring and evaluation process.
- 5.5 Internal Audit provided substantial assurance over the Manchester City Galleries in relation to governance and finance. We found good levels of compliance with financial regulations and purchasing controls although some records were held in personal emails or required explanation based on the specialist knowledge of the team. The issues we identified necessitate some improvements in governance that would provide a greater level of oversight and control of finances, and increased transparency and control over the operation of the Galleries and its role in the Partnership.
- 5.6 We issued our final report on the Citywide Support – Food Health Enforcement. We provided limited assurance over the arrangements in place surrounding the operational management of the Food Safety Team. Management have made practical operational decisions, increased the number of inspections and the work of the team is well controlled, however the service plan did not comply with the Food Law Code of Practice. Management are planning to respond to this with an update to Audit Committee in November 2015.

- 5.7 The table below reports progress on planned audit assignments for 2015/16 along with remaining work finalised from 2014/15.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Brought forward from 2014/15			
Housing Loan Related Transaction	Final	Substantial 	High
Taxi Licensing Business Process Review	Final	Short Report	
Parks Operational Management	Final	Substantial 	Not assessed
Citywide Support – Food Health Enforcement Approach	Final	Limited 	Not assessed
Oxford Road Station Procurement	Advice	Advice and Guidance	
2015/16 Planned and Additional Work			
URBACT 11 (ERDF) – Grant Certification	Complete and Certified	Compliance Certificate and Report Issued	
New Growth Point – Grant Certification	Complete and Certified	Compliance Certificate and Report Issued	
National Trading Standards Board – Grant Certification	Complete and Certified	Compliance Certificate and Report Issued	
Galleries Trust 11/915	Final	Substantial 	High
Decent Homes Grant Certification	Fieldwork complete	Set at Draft	Set at Final
Licensing Complaints			
Highways Grant Claims			
Neighbourhood Investment Fund			
Housing Loans	Fieldwork started		
Superfast Broadband Connection Vouchers: Grant Claim			
Triangulum Grant Certification	Deferred	Certification required August 2016	

Audit Recommendations and Exposure to Risk

- 5.8 The percentage of significant, major or critical recommendations implemented is 57% which is lower than the target of 70%. This was recently reported to Directorate management and is under review.

6 Procurement, Contracts and Commissioning

- 6.1 This is a newly created audit portfolio and was established to provide greater assurance on procurement, contracting and commissioning activity across the Council. Work in this period has been focussed on gaining an understanding of the three main recognised areas of Integrated Commissioning, Corporate Procurement and Capital Programmes and Property (CP&P). There are a number of specific audits planned and blocks of time available to respond flexibly to work identified following risk assessment and discussions with managers. Work will cut across the Council's three Directorates.
- 6.2 In Capital Programmes and Property, Internal Audit reviewed the key business areas with senior managers to understand the strategic and operational priorities and current management and operational arrangements in place. This work is on going as the service is in a state of flux with focus on making changes to the existing structure, getting the right level of support in key positions in the structure and managing certain priority risks. The current 'as-is' position is acknowledged to require strengthening. Internal Audit will support actions being taken where appropriate. At this stage we have agreed to support management in conducting reviews in two areas; Financial control and Supply Chain Management and scopes are being agreed.
- 6.3 Within Revenue Procurement we have conducted a review of the use of waivers to procurement across the organisation. This provided moderate assurance over the adequacy of controls in place to support the preparation, processing and approval of waiver exemption requests. We made recommendations for improved governance arrangements to manage risks of potential non compliance with contract standing orders and EU regulations and the risk of external challenge in relation to procurement activity. We have discussed the findings with management and await formal response to recommendations.
- 6.4 Internal Audit attended recent meetings of the strategic commissioning board (SCB). In part to maintain oversight over key projects and work priorities and offer advice and support. We reviewed and commented on the existing terms of reference for the SCB and gave comments on the adequacy of these. Board members were asked for their view, prior to any more formalised review of the board structure and responsibilities being undertaken.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Revenue Contracts Block			
MEAP Contract Management	Draft Report	Advice and Guidance	
Strategic Commissioning Board – Terms of Reference	Final	Advice and Guidance	
Capital Contracts Block			

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Thresholds	Final	Advice and Guidance	
CP&P Workflows	Final	Advice and Guidance	
WelcomeHome system	Final	Advice and Guidance	
Commissioning Forms	Final	Advice and Guidance	

7 Counter-Fraud and Investigations

7.1 The key priorities for this year together with details on reactive case load and proactive work were presented to Audit Committee in July as part of the annual fraud report. This provided details of cases and outcomes handled by the Counter Fraud Team.

Proactive

- 7.2 Internal Audit are co-ordinating action on the 2014/15 National Fraud Initiative data matching exercise designed to help prevent and detect fraud, overpayment and error. Matches received are assigned to relevant teams and to the IA Counter Fraud Team and work is underway to investigate them. At this stage work is on schedule and a full report on outcomes will be issued in due course. Further data matching is due on Council tax data later in the year.
- 7.3 Building on the proposals in the approved DCLG funded bid the Council is seeking to strengthen capacity and increase awareness. As part of this work is underway on the Council's new Counter Fraud Strategy which is building on policies and actions already adopted and used by the Council seeking to enhance the approach in key risk areas. This strategy articulates the collaborative approach between the Council's own teams; partner organisations and other authorities. The aim is to further develop methods to identify and address fraud and to build capacity and skills in identification and investigation of fraud and in seeking redress.
- 7.4 Action is being taken on increasing dedicated resources for Counter Fraud and investigation work; counter fraud training has been arranged and Council website pages are being updated to reflect policy updates and changes. Fair processing notices are being reviewed and updated where required to support further data matching and investigation capabilities.
- 7.5 Trials for proactive fraud detection exercises are now underway and will be reported to future meetings of the Audit Committee. These include examination of Adults One Off Payments; Continuing Care Payments and the appointment of freelance staff.

- 7.6 The whistleblowing policy was revised and is awaiting review at Audit Committee and Personnel Committee before being presented to Standards Committee for approval.
- 7.7 The final report for Duplicate (Vendor) Payments Exercise was issued in July. Using Idea software and based on a review of 166,000 payments we identified a small number of duplicate payments with a value of £221k. The majority of this has now been recovered. The low level of duplicate transactions in a large sample means we are able to offer substantial assurance that the control environment is sufficiently robust however exercises will continue to be run to maintain a high level of scrutiny over this risk area as errors can still be made.
- 7.8 We continue to liaise with Fraud Investigation Group and other local authorities with regard to preparations for the transfer of benefit fraud services to the DWP in February 2016. Work is on going to ensure that arrangements for key services such as receipt and investigation of Housing Tenancy Fraud referrals are retained.

Reactive

- 7.9 We have received 35 referrals of potential fraud, theft or other irregularity since April 2015, of which 18 were considered to be whistleblowing allegations made either anonymously or from a named source and were handled under the Council's whistleblowing policy and procedure. Following risk assessment, some of the referrals received were investigated by Internal Audit and others were referred to colleagues in HROD or back to departments or school governors for action, with support provided by Internal Audit as necessary
- 7.10 The nature, scale and complexity of referrals varied. There were few detected or proven cases of financial loss as a result of employee related fraud. A number of cases referred related to staff behaviour and conduct issues or service delivery concerns. The descriptions of risk here are kept brief given the ongoing nature of Council and actual or potential police investigations. This is required as revealing any related weaknesses in systems of control could increase the risks of crime being committed against the Council or partners. However key risks and issues arising in referrals in the period included breaches in financial controls, employee recruitment irregularity, identity verification, payments, fake cheques, tender and contracting, contract delivery compliance/irregularity and allegations of misuse of grant funding. Details of outcomes are reported to senior managers, external audit and members as appropriate and summaries reported in the annual fraud report.
- 7.11 The Council aims to recover all losses identified. The outcome of a recent court case for money laundering and theft was the criminal conviction of an ex employee manager who was given a suspended 18 month sentence and 200 hours community service as well as agreement to a POCA hearing for potentially recovery. However action is underway to recover the stolen money up to £28k from the ex-employee's pension.

8 Recommendation Implementation

- 8.1 Final Internal Audit reports issued include management action plans to address agreed recommendations to address exposure to risk. The effective implementation of these action plans within timescales determined by management is therefore essential. Internal Audit undertakes follow-up work on all recommendations with managers and reports progress to Directorates through the Council’s performance management system.
- 8.2 As part of the Council’s Performance Management Framework, Internal Audit reporting focuses on critical, major and significant risks as these represent a greater overall risk. The position on implementation in respect of these categories of recommendation is shown below. Of 156 critical, major and significant priority recommendations 120 were due to have been implemented. On assessment we confirmed that 50 had been fully implemented or mitigated through other actions and a further 19 were considered to be to be partially implemented. After removing recommendations superseded, rejected or referred back to management, 51 were outstanding and were being followed up with the business to assess risk and issues related to implementation.
- 8.3 The overall status of higher priority recommendations by Directorate is shown below.

Critical, Major or Significant Priority Recommendations by Directorate

Directorate	Number	Implemented	Partially Implemented	Superseded	Referred Back to the Business	Outstanding
Corporate Core	46	18	4	0	2	22
Children and Families	66	24	13	2	2	25
Growth and Neighbourhoods	16	8	2	1	1	4
Total	128	50	19	3	5	51

- 8.4 Internal Audit will continue to work with management to ensure that steps are being taken to manage identified risks and implement recommendations. Where necessary we will assess alternatives for action if the original recommendation is not feasible and will review timetables for implementation with management to ensure priorities can be addressed.

9 Conclusions

- 9.1 Members are asked to note the Internal Audit Assurance Report to August 2015.