

**Manchester City Council
Report for Information**

Report to: Audit Committee - 23 June 2017

Subject: Internal Audit Annual Assurance Report 2016/17

Report of: 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 which is presented in an Annual Assurance report.

This report provides Members with the Head of Internal Audit's annual assurance opinion on the Council's system of governance, risk management and internal control as well as a summary of the work undertaken in 2016/17.

Recommendations

Members are requested to consider and comment on the Head of Internal Audit's annual opinion and assurance report.

Wards Affected: All

Contact Officers:

Carol Culley
City Treasurer
Tel 234 3506
E-mail carol.culley@manchester.gov.uk

Tom Powell
Head of Internal Audit and Risk Management
Tel: 234 5273
E-mail t.powell@manchester.gov.uk

Background documents (available for public inspection):

Documents used in the development of the assurance report include:

- Internal Audit Plan 2016/17 (July 2016 Audit Committee)
- Internal Audit Quarterly Assurance progress reports 2016/17 to Audit Committee

- (September 2016 and January 2017)
- Internal Audit Emergent Plan 17/18 (March 2017 Audit Committee)

1.0 Introduction

- 1.1 This report provides a summary outturn of the work of the Internal Audit Section for the 12 months April 2016 to March 2017 and the annual opinion of the Head of Internal Audit. Update reports including assurance opinions have been provided to Audit Committee.

2. Overall Opinion

- 2.1 Overall governance, financial management arrangements and core systems and processes within the Council remain generally sound with no significant issues identified. The context in which the Council operates remains a fundamental challenge to objectives and delivery. Active management and review continues to be required to assess and address savings targets and the related impact on the Council's ambitions and priorities. Council objectives and priorities are set through a defined process which links business objectives, budget and workforce planning governed by timely and appropriate layers of officer and Member challenge and scrutiny and this remains robust. The Council remains well placed to respond to risks however the scale and pace of change continues to be an inherent risk to the control environment and needs to be effectively managed.
- 2.2 There are significant developments across the Council including ongoing work in key areas including devolution; social care and health service transformation; public service reform and innovation; and regeneration. Much of this requires collaboration with partners in order to meet the ambitious objectives for the City.
- 2.3 There remains clear leadership and drive to meet these goals following a number of senior management changes. There is further work to do in strengthening governance and control over delivery of significant programmes and projects while ensuring business as usual is delivered. Management recognise key risks and issues which could impact on delivery and improvement plans are in place in a number of areas and Internal Audit consider that there is capacity to improve.
- 2.4 In the year Internal Audit issued 10 "limited" assurance opinions and one "no" assurance opinion. These opinion levels are issued where there are significant concerns about the system of internal control or an absence of controls which could put the process or system objectives at risk and urgent improvement is needed. Recommendations made as a result are designated as critical or major to reflect the level of risk. These have resulted in agreed action plans which are being monitored by management and the implementation of which is reported to Audit Committee on a regular basis. Where audit work identified areas for improvement recommendations were made to address the risk and management action plans agreed or advice and guidance was provided to enable managers to make changes to processes or policies.
- 2.5 The Head of Internal Audit can provide **moderate** assurance that the Council's governance, risk and control framework is generally sound and operated reasonably consistently. The key governance, risk and internal

control issues of which the Head of internal Audit was made aware during the year which impacts on the overall opinion were:

Highways Maintenance

- A “no assurance” opinion was issued as a result of significant weaknesses in the quality and cost control systems. There have been a number of significant changes in this area, including the appointment of a Director and other key staff, but there is more work required to finalise the agreed staffing structure and develop robust, consistent governance and financial management arrangements across the Service. A moderate opinion was subsequently issued after a follow up audit which confirmed processes had been implemented to ensure that costs and growth on subcontracted works were authorised and controlled and that the quality of work was reviewed and challenged where required. The report highlighted further action required including the review of service improvement for the in-house team. These actions form part of a broader service development plan for 2017/18.

Children’s Services

- There is ongoing work to address concerns raised in the Ofsted inspection July 2014. Progress has been positive and this was acknowledged by Ofsted in September 2016 and by Internal Audit, but given the scale of the challenges across the City there is still more work to do. There were two limited assurance opinions issued in Children’s Services. One was for management assurance over compliance with casework supervisions where there was inconsistent application and recording of activity and further work required to embed processes though improvements are starting to be made. The second was for Foster Care Payments where system procedures had not been followed leading to incorrect payments being made and overpayments are now being followed up.
- Audits in 2015 and early 2016 gave limited assurance over the effectiveness of casework management in a number of areas. However, Internal Audit has taken assurance from the positive responses to related audit recommendations and have seen reported improvement in areas including social care casework; Children Missing from Home; and management oversight. Progress against key improvement actions is reported regularly to the Children’s Improvement Board and ensures a focus in areas such as recruitment of social workers; caseloads; Signs of Safety implementation; Looked After Children reduction; and Early Help strategies; and new ways of working supported by mobile ICT. Improvement Board reports indicate these measures are starting to have a positive impact.

ICT resilience

- Significant progress has been made in respect of security and the implementation of some key projects in the year, which will support a more resilient ICT estate. Nonetheless there is still much to do in the

development of overall ICT resilience and disaster recovery arrangements which is a key focus for ICT and the Risk and Resilience service in 2017/18.

Contracts and Commissioning

- Audit work identified issues across procurement and contracts and this resulted in a number of moderate and limited assurance opinions. Work is progressing to develop a more robust approach to contract governance and contract management but is an area where there is a need for greater consistency of approach and compliance with expected procurement and contract management standards. This will be a key focus for a new Contract Management Senior Group which includes the City Treasurer and City Solicitor.

3. Audit Programme Delivery

- 3.1. The following table provides a summary of audit work in 2016/17 based on the approved audit plan and amendments agreed in the year. These included changes to timing of some work and the addition of opinion or other assurance work. 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.
- 3.2. The analysis excludes most of the general advice and guidance provided to the business and involvement in working groups and projects as these are not captured in formal reports. Figures include completion of brought forward work in the first quarter as agreed with managers. The outcomes of audit work were shared with senior officers and Audit Committee during the year and a summary of key assurance is provided at section 4 below.
- 3.3. The approved Annual Audit Plan was substantially completed by year end with some limited carry forward into the early part of 2017/18 to finalise work.

Audit Status	Audit Plan Outputs	Additional and Contingency Items
Final Report Issued	111	11
Draft Report Issued	8	
Fieldwork Completed	11	
Fieldwork Started	18	
Planned	0	
Totals	148	11
Cancelled / Deferred	16	

- 3.4. Draft reports are awaiting management responses and then will be issued as final with management action plans. Cancelled and deferred work was

reviewed and agreed with management in year. This was usually due to requests for timescale changes; changing assessment of risk; or because assurance had been obtained from another source. The audits are recorded on appendix one for completeness and will be included in the 2017/18 audit plan where appropriate.

- 3.5. The sections below describe progress made against the annual audit plan. The status of all work is shown at Appendix One and this includes work which has been carried forward for completion into 2017/18.

4. Internal Audit Service

- 4.1. A self-assessment of Internal Audit carried out in 2016 confirmed that the service was considered to be meeting 89% of requirements in conformance with Public Sector Internal Audit Standards (“PSIAS”) with a further 6% partly met. The self-assessment was used to inform an External Quality Assessment (“EQA”) which was concluded in June 2017 as part of the reciprocal Core Cities External Quality Assessment programme. This review concluded that the Service complies with the main requirements of the PSIAS and made some recommendations for further service improvement. The EQA report is provided for information at Appendix Two and will be used as part of a broader service development plan for 2017/18.
- 4.2. The structure of the audit service was agreed for 2016/17, retaining three Directorate and three specialist audit teams. It is proposed to continue with this structure into 2017/18 however this will be reviewed as part of the service development process to ensure it remains the most effective means to provide the audit engagement. All vacancies were filled during the year with four new auditors joining the team following a successful external recruitment exercise. All staff were in post by July 2016 which meant that the service was at full complement of 18 at that stage. Operationally available resource was reduced to 17 because of reduced hours arrangements for some staff.
- 4.3. Subsequently one Lead Auditor was successful in external promotion to another Authority and left at the end of March 2017 reducing current resource available to 16. Resourcing options for the coming year are being developed and are likely to include commissioning of specialist, external resources to support delivery of audit work in key specialist areas. A decision on recruitment to the vacant post will be informed by the review of the service and will be reported to Audit Committee later in the year.
- 4.4. All staff including the Head of Service are fully or partially qualified auditors (CIIA) or accountants (CCAB) and/or qualified in investigation techniques. Two staff completed their PIIA audit qualification in year and four undertook counter fraud training which will be completed in 2017/18. Three staff are working toward the CIIA Certified Internal Auditor qualification. All staff undertook continuing professional development and are engaged in internal training and development as agreed in a service learning and development plan.

5. Children and Families

Children's Services

- 5.1. Internal Audit continued to monitor the progress made in response to the Ofsted Inspection 2014 and the direction of travel is positive. An Ofsted monitoring visit confirmed that there had been some progress while commenting on the need for further improvement in areas such as quality assurance and supervisions, which was consistent with earlier Internal Audit findings and opinions. The formal letter will be issued in May but early feedback indicated positive changes following inspection of the adoption service, with improvements including reduced delay for children waiting for adoption and more timely conclusions to care proceedings and identification of permanence options and placements. Inspectors identified further improvement needed including reducing the time taken moving children in care to being placed for adoption, improved reporting and better quality support assessments and plans.
- 5.2. Audits in 2015 and early 2016 gave limited assurance over the effectiveness of casework management in a number of areas. However, Internal Audit has taken assurance from the positive responses to related audit recommendations and have seen reported improvement in areas including social care casework; Children Missing from Home; and management oversight. Progress against key improvement actions is reported regularly to the Children's Improvement Board and ensures a focus in areas such as recruitment of social workers; caseloads; Signs of Safety implementation; Looked After Children reduction; and Early Help strategies; and new ways of working supported by mobile ICT. Improvement Board reports indicate these measures are starting to have a positive impact.
- 5.3. Audit work in the year has included a number of areas integral to the improvement plan. Internal Audit bi-monthly data reports were issued to the Director of Children's Services and showed a number of positive indicators including further reductions in delays in recording activity on Micare, the number of Children Protection Plan visits where the child was not seen alone, and an increase in Looked After Children social worker reports approved prior to review. Internal Audit also obtained assurance over Signs of Safety implementation through its integration into business processes (including supervisions) and MiCare and its incorporation into the Quality Assurance Framework.
- 5.4. There was moderate assurance over compliance with refreshed operating principles in the Emergency Duty Service. We were satisfied that policies were followed but recommended some changes including a procedures guide; a transfer protocol with the contact centre; and improved recording. We also gave moderate assurance over the Quality Assurance Framework which provides an effective methodology for assuring practice quality although our findings indicated there was more to do to achieve full compliance.
- 5.5. Only limited assurance could be provided over Foster Care Payments because in all cases tested the MiCare based process was not followed and a manual process was used instead. As a result we found incorrect payments,

lack of management oversight and review and inadequate evidence to support allowances awarded. The new management team responded positively to findings and a number of key actions were identified and implemented in response to this report however there is a need to confirm that there is now compliance with procedures which should control the risk of overpayment and to ensure that there is an assurance process in place to support and manage the risk. This is an area for specific audit follow up in 2017/18.

Adult Services

- 5.6. Internal Audit gave substantial assurance over key governance structures and processes supporting Manchester Health and Social Care Integration including risk and performance management and arrangements for delivering Director of Adult Services statutory duties. There were coherent structures in place and operating providing an appropriate and a logical framework for managing Locality Plan delivery. These had been subject to review to ensure their continued relevance and effectiveness. A new governance and accountability framework established during 2016 revised the previous structure to more clearly allocate accountability and responsibility.
- 5.7. The establishment of Manchester Health and Care Commissioning and the development of the Locality Care Organisation are areas that have been subject to high levels of oversight and scrutiny by the Council and NHS; from senior management, non-executives, Elected Members and funders. Internal Audit have therefore maintained a watching brief, maintaining an understanding of developments and have liaised with health auditors to agree outline areas of sharing and collaborative audit focus for 2017/18. The Head of Internal Audit and Risk Management has also working with the Director of Governance for Manchester Health and Care Commissioning in the establishment of risk, governance and assurance reporting arrangements across the partnership.
- 5.8. Moderate assurance was provided over a pilot scheme being developed by Client Financial Services ("CFS") for pre-paid card cards which was designed to confirm the requirements for a new system. The move to pre-paid cards should reduce the risks associated with use of debit cards particularly removing the need for CFS staff to hold multiple card accounts and eliminating need for direct access to bank accounts. We support the intention to migrate existing debit card accounts following completion of the trial and implementation of recommendations to enhance controls which was underway.
- 5.9. Adults Quality Assurance ("QA") Framework received moderate assurance as audit work confirmed the framework was operating effectively for safeguarding and was being applied in accordance with defined requirements. The audit confirmed there were still areas for improvement in increasing consistency between QA auditors, particularly around recording their findings, and ensuring remedial actions were addressed. Management were closely engaged during the work and several improvements were made at the time of the audit.
- 5.10. A substantial assurance opinion was provided for Manchester's Service for

Independent Living (previously MEAP). The assessment was based on compliance with the framework contract rules. There were some recommendations to strengthen controls for contract variations, the placing of charges on properties where adaptations have been completed and reporting. This represented a significant improvement from previous arrangements that had been subject to recurring audit work due to concerns around procurement and management processes.

- 5.11. Limited assurance was provided for the Independent Living Fund. This reported on arrangements to support the transfer of funding and responsibility for care and support needs from health services to the Council. We found delays in progressing reassessments against stated timescales, though we acknowledged that other priorities may have been a factor. We subsequently confirmed that all recommendations had been implemented and that reassessments had been completed and were all funded through the Council
- 5.12. Two thematic school audits of pupil attendance and cash handling were completed, involving visits to 10 schools in each audit. The first audit provided moderate assurance over arrangements to ensure the completeness and accuracy of pupil attendance data. There was no evidence of deliberate manipulation of data but gaps were identified in processes including weak controls over access to changes in data, misunderstanding or misuse of absence codes and a lack of system comments to verify the codes being used. There was a limited assurance over the cash handling processes in schools with weak controls commonplace. This work identified one theft of cash that is now being investigated by the police. Reported concerns include procedures not being fully documented for income collection and accounting, with insecure systems in place and a lack of adherence to expected procedures. Resulting audit actions included advice and direction provided to all Manchester schools setting out key risks, expected controls and good practice.
- 5.13. Lancasterian School was given limited assurance over arrangements to effectively track, challenge and make decisions to support delivery of their budget recovery plan. There were concerns including delays in setting and approving a plan, governance structures supporting plan delivery, and effectiveness of governor challenge and financial activity. Challenge and support arrangements were subsequently agreed between Governors, the Director of Education and Skills and the City Treasurer to improve financial management arrangements in the School and provide assurance over the development and delivery of a recovery plan. A robust and detailed management response has been provided and there is significant support being provided to aid control improvement. A new budget recovery plan was approved, submitted and signed off by the City Treasurer.

6. Corporate Core

- 6.1. Moderate assurance was provided for attendance management based on the adequacy of arrangements for ensuring compliance with recording, monitoring and management of sickness absence, confirming there is a positive capacity to improve based on planned actions. There was good compliance with return to work principles but formal reviews and paperwork were sometimes

- carried out or completed late and there was a mixed level of compliance with the Attendance Monitoring Review process. We also found that the level of detail recorded in relation to management actions and support was limited and did not always reflect actions actually taken.
- 6.2. The SAP Payment Controls audit provided substantial assurance. The audit confirmed that overall payments were made on a timely basis and there was evidence of approval and appropriate segregation of duties. We recommended that officers, outside of the payments team, who have authority to create new suppliers in the system, are reviewed to confirm that if these roles are still necessary and appropriate and that controls used within the payments teams are extended to those individuals to manage any exposure to risk.
- 6.3. Work in respect of the Hybrid Mail Project resulted in moderate assurance over project management arrangements in place to support the adoption of new hybrid mail processes. The team had in-depth knowledge of requirements and appropriate actions were taken in the early stages of the project but there was limited evidence demonstrating the key controls and project timelines. In our view this presented a risk to ensuring delivery remained controlled and on track. Agreed actions included documenting key tasks and formalising delivery timeframes and responsibilities of key individuals to ensure transparency and accountability as well as providing for continuity. There was also a need to improve management information and reporting to the Board to enhance the governance arrangements.
- 6.4. Highways reactive maintenance was given no assurance in 2016 due to a number of key concerns over the system of control. The Interim Director for Highways presented a report to Audit Committee in October 2016 setting out an action plan to address governance and control matters, including those identified in the audit report. A follow up audit was carried out to evaluate progress and this resulted in moderate assurance over the implementation of the management action plan for sub contracted work. Processes were implemented to ensure that costs and growth on subcontracted works were authorised and controlled and that the quality of work was reviewed and challenged where required. The report highlighted where further action was required including the review of service improvement for the in-house team. These actions form part of a broader service development plan, and additional support is now in place to support the Director and his management team in the implementation of agreed staffing structures, improving the use of technology in the service and in managing projects and contracts. This is work that will be ongoing in 2017.
- 6.5. The annual programme of core systems audit work provided assurance that financial systems are operating as intended and there were no significant issues to report. Substantial or moderate assurance was provided over a number of systems including suspense accounts general ledger, SAP payments, other payments (manual uploads), capital budget monitoring, business rates and asset valuation (highways network assets). Service development work has continued around data analysis. A continuous financial audit approach was developed with the payroll team to enhance data quality and provide assurance over the operation of controls over the entire payroll.

This provided positive assurance over the completeness and accuracy of overall payroll data.

- 6.6. Other finance related work in year included certification of a number of European and Central Government grants. Audit work confirmed that spend was compliant with grant conditions and provided certification to relevant funding bodies. There were no significant issues reported to funders but some advice and guidance provided to management in some areas to improve record keeping and management of evidence to support spend

ICT

- 6.7. Planned ICT audit work was started in year with several audits being finalised including the Academy (Revenues and Benefits) application audit; disaster recovery; email and internet filtering; and the ICT process for Joiners, Movers and Leavers. The disaster recovery audit has reconfirmed the need for a formal disaster recovery solution and this is a key priority for ICT in 2017 with options for data centre and infrastructure resilience being developed. There is a broader requirement to understand and confirm the critical ICT recovery requirements for key services, processes and systems to inform the ICT solution which ICT and the Risk and Resilience Team are developing alongside refreshed business continuity plans.
- 6.8. There were no significant issues arising from the draft report on email and internet filtering, although there is an acknowledgement of the need to keep this area under review following the implementation of Google and changes that have been made to the email filtering approach.
- 6.9. The Council was not directly impacted by the worldwide ICT virus in May 2017, with server patching and anti-virus all up to date and additional awareness communications issued to all staff in response to this event. The ongoing need to ensure user awareness of cyber risks and of the dangers that can arise from unsolicited emails and attachments remains as this threat continues to pose an inherent risk to all organisations and communications will continue in this regard in 2017/18. This will include a refresh and relaunch of the email and internet policies.
- 6.10. The overall ICT security infrastructure was also assessed within the audit review of the PSN Code of Compliance self assessment. This was reviewed prior to submission to the Cabinet Office and audit work confirmed it fairly reflected the key areas where further work was required to achieve full compliance. It was positive to note that the number of actions required were fewer than in previous years' submissions however continued focus is required to ensure that the remaining issues are addressed in line with the timeline submitted. This is reflected in the ICT project delivery plans. The Cabinet Office were satisfied with the submission and consider that the Council's infrastructure is sufficiently secure for connection to PSN to be maintained.
- 6.11. Through attendance at project boards and project steering groups Internal Audit were able to provide continuous support and input to the management of delivery and assessment of risks surrounding the organisation wide implementation of key ICT projects. This has included Google which went live with a successful organisation wide roll-out in March 2017. Internal Audit

remain engaged in phase two of this project as there is more work to do in terms of policies and guidance and the focus is expanded to include document storage and benefits realisation.

- 6.12. An audit of the Barclays.net application provided substantial assurance over the effectiveness of the internal control arrangements for the operation of the systems and processes for managing this application which is used for income, banking and treasury management. A number of low level recommendations for improvement were identified primarily in retaining information to demonstrate effective user access management.

7. Growth and Neighbourhoods

- 7.1. The audit of contract governance and performance framework for the Waste Collection, Recycling and Cleansing Contract resulted in a substantial assurance opinion. Internal Audit found that there were sufficient controls and assurance reporting mechanisms to identify areas of non-compliance and poor performance. However the ability of the contractor to meet the expected standards of the contract was acknowledged by all officers to be a challenge and there was an agreed commitment from the contractor to improve performance as part of a six month improvement plan on street cleansing. Management and Members are aware of the risks and continue to take actions in support of sustained improvement in performance.
- 7.2. Internal Audit provided moderate assurance over compliance with the established procedures for handling of waste requests for service which were clearly defined and operated as intended through the CRM and Flare systems. Performance rates varied and our analysis highlighted a number of areas for improvement around the process however testing showed improved performance since November 2016 and capacity to continue to improve is high. Enhancement to systems include work to integrate with other systems and the use of handheld devices by the contractor to record service request information.
- 7.3. Following a request from management to review the service transferred into the Directorate in year, Internal Audit provided a limited assurance in relation to the commercial and management arrangements of the Christmas markets. Management agreed improvements to be made in relation to pitch fees and rents; use of waiver exemptions; and pitch arrangements with traders to ensure consistency was demonstrated.
- 7.4. Superfast Broadband Connection Vouchers Scheme was provided with a final assurance report in relation to grant usage as part of the funder's close down processes. This gave positive assurance that the statement of grant usage fairly represented eligible expenditure in accordance with the grant conditions.
- 7.5. Moderate assurance was given over arrangements for the efficient administration of taxi compliance tests. The quality of records was sufficient across the two systems used but as these were not linked there was manual intervention which resulted in some duplication of effort and data transfer. Management information reporting tools were not used to directly produce reports so these had to be created manually and added additional time and increased risk of error. The adoption of a new system (Uniform) to replace

Lalpac is expected to secure improvements once fully implemented in 2017.

- 7.6. The Management and Governance of Events was given moderate assurance. While acknowledging the obvious success the Council has in delivering major events there were areas for improvement around strategies, systems and processes. Recommendations have been made to develop a new Events Strategy along with documentation of core processes, procedures and project plans and management oversight. This will enable the development of common objectives and a performance framework to ensure effective and transparent delivery and learning from best practice.

8. Procurement, Contracts and Commissioning

- 8.1. For the second year, a specific programme of audit work was completed focused on procurement, contracts and commissioning. This work confirmed risks in the consistency and quality of contract governance arrangements operating across the Council in terms of overall contract visibility, ownership and accountability; the skills and capacity to manage contract compliance; and robust commercial and performance management and reporting. A new senior strategic commissioning role was established to drive efficiency and improvement in the Council's approach to contract management and giving contract management a more commercial focus. The outcomes of audit work were included in a review of effectiveness of contract management across the Council and will be used to inform overall improvement plans and actions in 2017/18
- 8.2. Substantial assurance was provided over the contract management arrangements over the Leisure Contract with GLL. We reported that there was a positive direction of travel in terms of the development of processes to support improved contract governance and we acknowledged the work undertaken in establishing the foundations for the new process and the plans in place to take the process forward. We will be involved in providing support to the service around the retender of the contract which expires in March 2018.
- 8.3. Moderate assurance was provided for ICT Contract Management. The report reflected on several areas of good work to improve visibility over contract information and developing relationships with existing providers. Whilst good progress had been made, a number of contractual arrangements remained under-developed in terms of performance measures and management are developing a consistent ICT performance framework to ensure strong contract management and the use of key performance metrics as part of the analysis for all future projects
- 8.4. Substantial assurance was provided for the contract management framework operating within the Strategic Housing Team. There were effective controls in place for key contract management activities including contract governance, cost control, performance management and skills and resourcing. This was a significant improvement given that heating contract management had been an area of concern reported by Internal Audit in previous years.
- 8.5. Limited assurance was provided for the Council's contract creation and formalisation processes. Internal Audit found that there was a general lack of

compliance with existing requirements for the formalisation of contract agreements and signing authorities as set out in the Council's Constitution and Procurement Rules. Although this is not a high risk in terms of operational delivery of contracts, because there are implied contractual agreements and delivery is being carried out, there is a recognition that opportunities for improvement exist. A risk workshop was held with representatives from Legal Services and Corporate Procurement to better understand the reasons for delays in the process of sign off and the Head of Legal Services and Head of Corporate Procurement are exploring options for to ensure that there is compliance with a consistent, risk based approach to contact sign off.

- 8.6. The North West Foster Care Framework contract monitoring audit resulted in a limited assurance opinion. The main concerns related to the calculation of placement charges from providers and the quality of provider compliance monitoring being undertaken. Overcharging was identified which had resulted from non-application of discounts allowable under the framework. Internal Audit agreed recommendations for improved controls and management subsequently reviewed all existing placements to ensure that the correct charges were being applied. As a result of this review the service is currently in the process of seeking recovery of overpayments calculated to be £110k. As noted above this an area for specific audit follow up in 2017/18 to ensure risks identified in this area have been addressed by the actions taken by the new management team.
- 8.7. Moderate assurance was provided for Public Health Contract Management. Internal Audit obtained assurance over developing arrangements around contract registers, risk prioritisation methods for provider visits and team communications. There was less assurance over the 0-5 Health Visiting Contract and the ability to verify the accuracy and validity of performance and payment data. The operation of these contracts is likely to transfer to Manchester Health and Care Commissioning as part of Health and Social Care integration although agreed actions will still be progressed as part of this process.

9. Counter-Fraud and Investigations

- 9.1. Detailed information in relation to anti-fraud and investigations for 2016/17 will be presented in the Annual Fraud Report to be presented to Audit Committee in July 2017. A summary of recent work is shown below however the details of cases and actions are provided in the Annual Fraud Report due to the confidential nature of the work.

Proactive Work

- 9.2. The Whistleblowing and Anti-Money Laundering ("AML") Policies and Procedures have been reviewed by Audit Committee. The whistleblowing policy has been updated following Committee comments and a refreshed AML policy will be re-presented for approval in July 2017.
- 9.3. Work is underway developing a Counter Fraud Training Strategy in collaboration with audit colleagues in Bolton Council and the GM Combined Authority. The Strategy will define the overall approach and resources. It is based on organisational risk assessments and will include generic fraud

awareness training across all services with more specific topics/content for business areas considered to be exposed to a higher inherent risk of fraud and corruption, such as procurement, payments and contracts. The focus of the work on both duplicate payments and vendor credit recovery has been to review and develop the approach taken, utilising specialist software tools to streamline the process. During the year £7,821 of duplicates and credits were recovered and repaid to the Council as a result of this work.

- 9.4. National Fraud Initiative data matches were released in January 2017 and work is underway to assess the quality of the matches; co-ordinate review; and where appropriate carry out investigations. This work is being undertaken by Internal Audit and officers from across various service areas are also involved. Key outcomes will be reported to the Cabinet Office as well as to officers and the Audit Committee.
- 9.5. The business case for the procurement and future use of identification scanning equipment for use within Council departments has been developed with a view to implementation of the devices and software early in 2017/18. This will support proactive checks on authenticity of a range of documents.

Reactive Work

- 9.6. Internal Audit received 80 referrals of potential fraud, theft or other irregularity in the year April 2016 to March 2017 of which 45 were handled under the Council's whistleblowing policy. Some of the case work is complex with multiple issues and work has been resource intensive in some cases in order to effectively investigate allegations and concerns. Internal Audit have sought to strengthen the risk assessment process for referrals to confirm the objectives for the work and the role of Internal Audit and other Council services in the investigation of matters arising. This has included referrals to others where appropriate including managers; HR&OD; school governors / management; and Boards of third party organisations. Referrals to the police have been made in a few cases where prosecution is a potential outcome. Those cases can require on-going support from Internal Audit based on the need for collation of evidence and witness statements.
- 9.7. The nature of work and allegations continued to vary and included:
- theft of monies by interception;
 - financial or data fraud;
 - financial irregularity;
 - allegation of abuse of position;
 - inappropriate funding claims;
 - running a private business from a Council place of work;
 - contract irregularity; and
 - financial and governance issues in third sector organisations partly funded by the Council.

- 9.8. During 2016/17 Internal Audit received 26 housing tenancy fraud referrals from Registered Providers, of which 20 were progressed to investigation. As a result, keys have been returned in relation to five properties where tenants were illegally subletting. Whilst the investigations do not provide a direct financial saving to the Council they help ensure housing stock within the City is properly allocated to those individuals/families in most need. Work in this area has helped registered providers secure savings estimated to be £90,000 (calculated at £18,000 per property per year) for the year. There has been one successful prosecution which resulted in a fine and recovery of legal and investigation costs. Three further cases have been authorised for prosecution and are currently with Legal Services. One of these includes offences under the Fraud Act 2006 with regard to a related £20k Right to Buy (“RTB”) application.
- 9.9. An amount of £9,750 has been recovered following the investigation into a false representation made on a RTB application and a caution issued to the individual concerned.
- 9.10. A total of 72 Council Tax scheme referrals were received in the year of which 33 were subject to detailed review. Investigation work resulted in recovery of £8,418 in overpayments and an additional £36,613 of wider public sector benefits including Council Tax Benefit, Single Adult Discount, Housing Benefit and Discretionary Housing Payments were identified as recoverable. Three administrative penalties with a value of £1,772 have been issued during the year and legal action is being pursued in relation to a further three cases.

10. Recommendation Implementation

- 10.1. The total number of critical, major or significant priority recommendations fully implemented across the Council at 31 March 2017 was 61% with a further 7% partially implemented as shown below. This is below the target of 70% and work is ongoing to improve implementation rates and reduce exposure to risk.
- 10.2. A separate report is now provided to Audit Committee on all outstanding recommendations and the reporting and escalation process has been strengthened to ensure Strategic Directors and Executive Members are made aware of outstanding recommendations on a regular basis.






Critical, Major or Significant Priority Recommendations by Directorate

















Directorate	Number Due	Implemented	Partially Implemented	Referred Back	Outstanding
Core	33	16	6	0	11
Children & Families	58	39	1	7	11
Growth & N’Hoods	4	3	0	0	1
Total	95	58	7	7	23
Total %		61%	7%	7%	24%

11. Conclusion

- 11.1. Members are asked to consider the Internal Audit Annual Assurance Report 2016/17.

Appendix One Outturn and Audit Status

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Adults			
Independent Living Fund 22/06/16	Final	Limited 	High
GM Social Work Academy: Grant Certification 28/06/16	Complete And Certified	Substantial 	N/A
Better Care Fund: Social Care (Capital) Grant 2015/16 29/06/16	Complete And Certified	Substantial 	N/A
Appointeeships and Deputies – Control over Cash Issued 21/12/16	Final	Moderate 	High
Manchester Health and Social Care Integration: Governance 30/3/17	Final	Substantial 	High
Adults Quality Assurance Framework 5/4/17	Final	Moderate 	High
Adults Services Assurance Map	Deferred		
Children's Services			
Foster Care Payments 04/07/16	Final	Limited 	High
Early Help Delivery 30/6/16	Final	Advice and Guidance	
Ofsted Improvement Plan: MiCare Casework Management Data Quality 16/06/16	Final	Advice and Guidance	
Troubled Families PbR Certification 30/09/16	Complete And Certified		
Schools Financial Value Standard 2015/16 25/05/16	Complete And Certified		
Ofsted Improvement Plan - MiCare Casework Management Data Quality October and December 2016	Complete - Bi-Monthly Reports		
Ofsted Improvement Plan: Emergency Duty Service Issued 16/9/16	Final	Moderate 	High
Quality Assurance Framework - Safeguarding and Social Work 14/1/17	Final	Moderate 	High
Management Assurance over Casework Management – Supervisions 21/09/16	Final	Limited 	High
Multi Agency Safeguarding Hub (MASH)	Fieldwork completed	Set at draft	Set at Final
Troubled Families PbR Certification January 2017	Complete and Certified		

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Schools Financial Value Standard 2016/17	Fieldwork started		
Troubled Families PbR Certification Mar 2017	Complete and Certified		
Children's Services Assurance Map	Deferred		
Signs of Safety Implementation	Cancelled – Monitoring Only		
Troubled Families LOGASNet User Access Audit			
MOSAIC – Upgrade of Social Care System			
Schools			
Lancasterian 16/3/17	Final	Limited 	High
School Attendance Data: Thematic Audit 15/12/16	Final	Moderate 	Medium
School Cash Handling: Thematic Audit 30/3/17	Final	Limited 	Low
Abraham Moss: Primary and Secondary 22/07/16	Final	Substantial 	High
Abbott Community Primary 19/05/16	Final	Satisfactory 	Not Assessed
Ashbury Meadow Primary 29/05/16	Final	Satisfactory 	
Ashgate Specialist Primary 29/04/16	Final	Satisfactory 	
Holy Name RC Primary 26/04/16	Final	Satisfactory 	
Northenden Community Primary <i>Issued</i> 05/05/16	Final	Satisfactory 	
Oswald Road Primary 24/05/16	Final	Satisfactory 	
Park View Community 24/05/16	Final	Satisfactory 	
Button Lane Primary 24/05/16	Final	Limited 	
Irk Valley Community Primary 19/05/16	Final	Satisfactory 	
Higher Openshaw Community Primary 07/06/16	Final	Satisfactory 	
St Agnes C of E 19/05/16	Final	Satisfactory 	
Wright Robinson Sports College 16/06/16	Final	Satisfactory 	

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
St Chad's RC Primary 05/07/16	Final	Satisfactory ●	
Cheetwood Community Primary 08/06/16	Final	Satisfactory ●	
Chapel Street Primary 17/06/16	Final	Substantial ●	
Corporate Core			
Brought forward from 2015/16			
AGS/Significant Partnerships Register 11/08/2016	Final	Full ●	Not assessed
ICT Incident Management 03/06/2016	Final	Moderate ●	Not assessed
Adults Financial Assessments 20/05/2016	Final	Moderate ●	High
Benefits and RBV 19/05/2016	Final	Substantial ●	Not assessed
PCNs Debt Recovery Process 18/05/2016	Final	Substantial ●	High
2016/17			
URBACT II	Completed and Certification		
GMPF Workbook Validation 2/6/16	Final	N/A	
Payments SAP 7/12/16	Final	Substantial ●	N/A
Carbon Reduction Commitment 28/07/2016	Completed	N/A	
Disabled Facilities Grant 24/08/2016	Completed		
Payment Card Industry Data Security Standard (PCI DSS) 05/09/2016	Completed	Advice and Guidance	
Teachers Pensions	Final		
NSL Clamping Issued 23/8/16	Final		
CCTV Bus Lane Notifications	Final		
Attendance Management 14/11/16	Final	Moderate ●	High
Hybrid Mail Project (Printing ICT Project) 15/12/16	Final	Moderate ●	High
Fixed Assets – Highways Valuations	Final	Moderate ●	High

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
General Ledger – Suspense Accounts 7/2/17	Final	Moderate ●	High
Payments Other – Manual Uploads 16/3/17	Final	Moderate ●	High
PCI DSS 2	Fieldwork Completed		
Business Rates	Draft	Moderate ●	Set at Final
The Factory Grant	Complete and Certified		
Legal Services - Financial Management	Final	Moderate ●	High
Payroll and Employee Data Monitoring 31/3/17	Final	Moderate ●	High
Development and Implementation of Primerva System	Advice and guidance		
Benefits and RBV	Fieldwork completed		
Use of External Resources	Cancelled		
Changes following HR Strategic and Transactional Reviews	Fieldwork started		
AGS/Significant Partnerships Register	Fieldwork started		
Capital Programme Monitoring / Delivery	Deferred		
Triangulum	Deferred		
City Cycle Ambition Grant (CCAG)	Final	N/A	
Highways - Follow Up	Final	Moderate ●	High
Highways Claims - Various Grants	Completed and Certified		
Growth and Neighbourhoods			
Citywide Food Law Enforcement Approach (FSA) Issued 07/06/2016	Final	Moderate ●	High
National Trading Standards Board (NTSB) Grant Issued 12/06/2016	Final	Completed and Certified	
Grant Certification - URBACT III 29/06/2016	Final		
Fleet Co-location – Taxi Compliance Testing 9/1/17	Final	Moderate ●	High
Management and Governance of Events 2/3/17	Final	Moderate ●	High

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Grant Certification - Various Highways Claims	Complete and Certified		
Town Hall Refurbishment and Decant	Advice and Guidance		
BDUK Connections Vouchers – end of Scheme Grant Certification 6/12/2016	Complete and Certified		
Christmas Markets – Financial and Management Overview 10/2/17	Final	Limited ●	Not assessed
Disabled Facilities Grant Scheme 20/3/17	Final	Moderate ●	High
Development and Implementation of Selective Licensing (Landlords) 18/5/17	Final	Moderate ●	NA
URBACT 111 (Implementation phase) 21/3/17	Complete and Certified		
Implementation of Works and Skills Strategy 13/4/17	Final	Moderate ●	High
Flare Service requests Compliance – Noise 30/3/17	Final	Substantial	High
Waste Services Requests Compliance – Residential and Business 18/5/17	Final	Moderate ●	High
Neighbourhoods Legal Enforcement Compliance	Deferred		
Place Plans and Place Board Governance	Cancelled		
CRM requests for service			
Residential Growth / Manchester Place			
Procurement, Contracts and Commissioning			
Cycle City Ambition Grant (CCAG) 24/05/2016	Final	Not assessed	
Highways Maintenance Review 31/08/2016	Final	No ●	Not Assessed
Financial Control and Fees Monitoring 06/06/2016	Final	Moderate ●	High
Leisure - GLL Contract Management 07/09/2016	Final	Substantial ●	High
ICT Contract Management 09/09/2016	Final	Moderate ●	High
Public Health Contracts – Contract Management 28/2/17	Final	Moderate ●	High
Contract Creation and Formalisation 18/1/17	Draft	Limited ●	Set at final
North West Foster Care Framework – Contract Monitoring 25/1/17	Draft	Limited ●	High

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Contractor Selection and Award – Family, Resource, and Intervention Framework 13/4/17	Draft	Moderate ●	Set at Final
Contractor Selection and Award – Manchester’s Services for Independent Living 13/4/17	Draft	Moderate ●	Set at Final
Waste Collection, Recycling and Cleansing Services Contract – Contract Management Framework 9/5/17	Final	Substantial ●	High
Housing Contract Management 5/4/17	Final	Substantial ●	High
Grounds Maintenance – Tender Evaluation 10/3/17	Final	Advice and Guidance	
Contract Management – Strategic Review	Advice and Guidance		
Review of Commissioning Strategy and Model	Advice and Guidance		
Leisure – Contract Retender Approach	Deferred		
Contracts Assurance Framework – Assurance Mapping	Deferred		
VFM Considerations Major Contracts	Cancelled		
Data, Information and Systems			
ICT Hardware Control – Health Check 28/2/17	Final	N/A	
PSN Code of Compliance 2/2/17	Final		
ICT Joiners, Movers & Leavers	Field Work Completed	Set at Draft	Set at final
ICT Strategy Delivery 23/3/17	Final	N/A	
ICT Programme and Project Management	Fieldwork started	Set at Draft	Set at final
Disaster Recovery	Draft	Limited ●	Set at final
Academy – Application Audit	Fieldwork completed	Set at Draft	Set at final
Barclays.net – Application Audit 30/3/17	Draft	Substantial ●	Set at final
Information Strategy	Advice and Guidance		
Email and internet filtering	Fieldwork Complete	Set at Draft	Set at final
Wenlock Way – Document Management	Cancelled		

Manchester City Council

PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS

**Carried out by:
Liverpool City Council**

REPORT DATE: 21st April 2017

External Assessment of Manchester City Council Internal Audit Service 29th November – 1st December 2016

1. Introduction

- 1.1 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS, “the Standards”) became effective. These Standards are mandatory and apply to Internal Audit in all parts of the public sector in the UK. The Standards are intended to reflect that “a professional, independent and objective internal audit service is one of the key elements of good governance”.
- 1.2 The Standards introduced a requirement for an external assessment of an organisation’s internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.
- 1.3 The Core Cities Chief Internal Auditors group has established a ‘peer review’ process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment with independent validation and this report presents the summary findings of the review carried out on behalf of Manchester City Council.

2. Purpose

- 2.1 The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

3. Approach/Methodology

- 3.1 The Core Cities Chief Internal Auditors group agreed a detailed terms of reference that outlines the broad methodology for the conduct of each review. This was issued to Manchester City Council prior to the peer review.
- 3.2 In summary the peer review was undertaken in three stages: pre-review, on-site review, and the post-review evaluation and reporting. The review covered the audit activity during the period covered in the latest Internal Audit Annual Assurance Report and the current financial year to the end of November 2016. The peer review was undertaken by the two Lead Audit Managers from Liverpool City Council.

Review of Self-Assessment

- 3.3 The Chief Audit Executive (CAE) and Audit Manager had completed a self-assessment of Manchester City Council’s Internal Audit Service and its compliance with the Standards. This self-assessment was used as the basis for the external assessment, which was then evidenced with a range of internal and externally published documentation.

Further Evidence Gathering and Testing

- 3.4 To support and further inform the assessment a sample of elements of the audit process was examined and compared against the requirements of the Standards and the related CIPFA Local Government Application Note. This included examination of core documents and a sample of audit files for individual audits.
- 3.5 Operational practices were discussed with the CAE, the Audit Manager and other members of the Audit Team. Meetings were also held with Senior Council Officers including the Section 151 Officer and the Chair of the Audit Committee (the "Board") to explore key expectations of the audit services. The review team attended the Audit Committee meeting held on 1st December 2016 to observe.

4. Opinion of the External Assessment

- 4.1 This external assessment concludes that Manchester City Council's Internal Audit Service **complies** with the main requirements of the Public Sector Internal Audit Standards.

5. Findings

- 5.1 It was evident from all aspects of the review that Manchester's Internal Audit Service is a well-established team who is highly regarded by the organisation. The team is well-positioned within the Authority and it was evident that they are viewed as a valuable resource.
- 5.2 The service is headed by an engaging and experienced leader who is highly regarded by Senior Management and the Board. There is a clear vision in place for the service and staff within the team are engaged and invested in the delivery of audit activity. From discussion with senior officers it is clear that the audit team and their work are highly valued and contribute to the efficient workings of the Council.
- 5.3 Areas for development have been identified through this assessment, however these were in the main identified through the self-assessment demonstrating clear self-awareness of the audit team and a commitment to continuous improvement. The team also have in place an ongoing Service Improvement Plan to further evidence this.

PSIAS Requirements – Definition of Internal Auditing

- 5.4 The Public Sector Internal Audit Standards include a specific definition of Internal Auditing, a Code of Ethics and eleven specific standards that are divided into attribute standards and performance standards.
- 5.5 The definition of Internal Auditing has been formally adopted by the Audit Team within their Internal Audit Charter and it is evident from our review that

the audit activity undertaken is in line with the definition. The CAE and the audit team act to provide *“independent, objective assurance and consulting activity”*. This is outlined within the Audit Charter and demonstrated in practice through audit activity undertaken and the operational positioning of the team.

- 5.6 Through discussions with senior officers at Manchester City Council, the self-assessment review and on-site work it is clear that the work of the audit team helps the organisation *“accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”*

PSIAS Requirements – Code of Ethics

- 5.7 The mandatory Code of Ethics is referenced within the Internal Audit Charter and the audit team was viewed to be operating in line with the Code and to a high degree of professionalism.
- 5.8 It was evident that ethics and professional standards are given high regard within the Team. All staff are professionally qualified or studying to be so, and staff are formally reminded of the importance of maintaining high standards through adherence with the Code of Ethics, the Council’s Code of Conduct and the completion of an Ethics Declaration and a Declaration of Interest.

Attribute Standards: 1000 - Purpose, Authority and Responsibility

- 5.9 The Internal Audit Charter sets out the purpose, authority and responsibility of the internal audit activity and this has been reported to the Board. The arrangements outlined in the Charter appear to accurately reflect the organisational and operational arrangements in place and show a good understanding of the role of internal audit.
- 5.10 The substance of the Charter is in line with the Standards however there are some minor amendments that could be made to ensure the document is fully compliant. A recommendation has been made to update the Charter and present this to Senior Management and the Board.

Attribute Standards: 1100 - Independence and Objectivity

- 5.11 The Charter sets the standard for the CAE’s independence and access to Senior Management and the Board. The CAE reports directly to the Board and attends all Board meetings to present reports and answer questions. Senior management may also be required to attend Board meetings to respond to audit findings in their area. As part of this review we observed a meeting of the Board and it was clear that the CAE is a valuable contributor to such meetings, and his input both formally and verbally is valued.
- 5.12 The CAE was appointed by managers and not by the Board. Whilst this is not in accordance with the Standards it is in line with prevailing Local Government practice and in our opinion is an appropriate deviation from the Standards.

- 5.13 The Standards require feedback to be sought from the Chief Executive and the Board to contribute to the CAE's performance appraisal. At present the CAE's performance appraisals are undertaken by the Section 151 Officer in her line management capacity. This is considered to be in line with prevailing Local Government practice and in our opinion is an appropriate deviation from the Standards.
- 5.14 There are suitable arrangements in place to manage threats to objectivity at different levels. All staff are required to complete a declaration of interest and these were last updated in September 2016. The CAE confirms to the Board that audit activity is operating independently at least annually through the Audit Plan, the Annual Assurance Report and the Audit Charter.
- 5.15 Lead Auditors within the team have set areas of the plan that they are responsible for, however these roles were rotated 18 months ago and there is ongoing rotation of other members of the audit team.
- 5.16 The CAE does have responsibility for some operational areas outside of Internal Audit. Where audit activity is undertaken in such areas the audit activity is cleared through the Audit Manager rather than the CAE.

Attribute Standards: 1200 - Proficiency and Due Professional Care

- 5.17 The CAE is a member of the Chartered Institute for Public Finance and Accountancy (CIPFA) and is a highly experienced audit professional who has been in his current post for 8 years and also currently serves as the CAE for Bolton Council and Greater Manchester Combined Authority.
- 5.18 As all members of the audit team are professionally qualified or studying to be so, they are required to comply with the Continuing Professional Development (CPD) requirements of their own professional bodies. An area for development identified through the self-assessment is to improve the record keeping for staff training and CPD undertaken. A recommendation has been made to introduce comprehensive record keeping in this area.
- 5.19 The Standards set out the requirements for auditors to exercise due professional care for each audit engagement. There is clear evidence that there are suitable arrangements in place to support this including the completion of an Annual Planning Template and a Terms of Reference document for each engagement.

Attribute Standards: 1300 - Quality Assurance and Improvement Programme

- 5.20 The Standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the Standards to be evaluated. The QAIP should also assess the efficiency and effectiveness of the internal audit

activity and identify any areas for improvement. The QAIP is currently in development and once complete will be presented to the Board.

- 5.21 A self-assessment of compliance with the Standards' checklist was however undertaken in May 2016, and the results of this were reported to the Board in the 2015/16 Annual Assurance report. Once the QAIP has been developed the results of this should be reported to the Board annually.
- 5.22 The self-assessment identified that the current Key Performance Indicators (KPIs) for the service are in need of a refresh. A recommendation has been made to complete this exercise and to include performance against the KPIs in the Annual Assurance Report to the Board.
- 5.23 The Internal Audit Team do not currently hold ISO accreditation, however this is currently being explored. ISO accreditation is not a requirement of the Standards but may serve to enhance the quality assurance arrangements.

Performance Standards: 2000 - Managing the Internal Audit Activity

- 5.24 The Standards require that the risk based plan takes into account the organisation's assurance framework. The CAE seeks to place reliance on assurance mechanisms within the Council as well as findings of other auditors and inspectors. This remains an area for ongoing development for the Authority as a whole and collective action is being taken to further develop risk and assurance mapping across the Council.
- 5.25 The CAE has to ensure that sufficient audit work is undertaken throughout the year to enable his opinion to be given at the year end and whilst the service operated at a reduced resource during 2015/16, following successful recruitment exercises it held a full complement of 18 staff by August 2016.
- 5.26 No areas of non-compliance with the Standards were identified.

Performance Standards: 2100 - Nature of Work

- 5.27 Internal audit planning is undertaken in reference to the corporate and directorate risk registers (*standard 2120: risk management*). The audit plan demonstrates how individual audits relate to risks identified on these risk registers, and risk assessments are performed as part of scoping individual audit assignments. It would be beneficial for an audit of the corporate risk management arrangements to be planned so that assurance can be gained in relation to risk management processes at a strategic level.

Performance Standards: 2200 - Engagement Planning

- 5.28 Terms of Reference are prepared for each audit engagement which are issued to the respective client officers. These Terms of Reference include the objectives, scope, timing and resource allocation for the engagement. Whilst the consideration of fraud risk, value for money and IT risk is made at the

scoping stage this process is not formally documented within the audit planning template, we suggest this is explored further.

Performance Standards: 2300 - Performing the Engagement

- 5.29 We found that work was well planned, with clear Terms of Reference issued at the start of each audit. When we reviewed a sample of audit files within the Galileo audit system risks, controls, testing and evaluation of results were recorded but there were inconsistencies in how management review had been recorded. The Standards require that appropriate evidence of supervision is documented and retained for each engagement (*standard 2340 engagement supervision*); the adoption of a consistent approach should be considered.
- 5.30 The use of the Galileo audit management system for working papers is supported by an audit manual documenting key processes. The service has already identified on their service improvement plan that there is a need to refresh the audit manual, dated September 2010, to reflect the requirements of the Standards. The intention is for this to be done following the outcome of this external quality assessment so that the findings can be taken into account.

Performance Standards: 2400 - Communicating Results

- 5.31 Clear reports are issued following the conclusion of audits. Examples of good practice include:
- giving an overall assurance opinion and the capacity to improve;
 - categorisation of both control and compliance issues identified (critical, major, significant, moderate and minor);
 - limitations on work; and
 - identifying areas of good practice in addition to areas for improvement.
- 5.32 The Standards (*2410 Criteria for Communicating*) require that the communication of engagement results include limitations on the distribution of the results. As such the existing audit report templates do not contain specific limitations, consideration should be given to the inclusion of Freedom of Information riders to address this requirement.
- 5.33 The annual report to the Board follows the requirements of the Standards, in that it includes:
- an opinion on the effectiveness of the Council's framework of governance, risk management and control;
 - a summary of work undertaken, from which the opinion was drawn; and
 - a statement on conformance with the Standards.
- 5.34 The CAE's annual report to date has not included the results of the QAIP as required by the Standards. This is due to the QAIP being in draft. This has already been referenced and recommendations made in Attribute Standards 1300 above.

Performance Standards: 2500 - Monitoring Progress

- 5.35 There is a formal follow-up procedure where audit recommendations are made. As part of the performance monitoring of the Internal Audit Service, a report has recently been taken to the Board specifically focussing on numbers and types of audit recommendations made and action taken to address them; a notable area of good practice.
- 5.36 No areas of non-compliance with the Standards were identified.

Performance Standards: 2600 - Communicating the Acceptance of Risks

- 5.37 Where the CAE has concluded that a level of risk may be unacceptable to the organisation, he has discussed the matter with senior management and communicated this to the Board.

We would like to thank all those involved in the review, in particular Tom Powell and Kathryn Fyfe.

6. Action Plan

No.	Observation	Recommendation	Management Response
1	<p>An Internal Audit Charter is in place to define the purpose, authority and responsibility of internal audit activity. The Charter is generally compliant with the Standards' requirements however there are some changes required to make the document fully compliant.</p>	<p>The Internal Audit Charter should be updated to fully reflect the requirements of the Standards. The updated Charter should be presented to Senior Management and the Board.</p> <p>The update should include the following points:</p> <ul style="list-style-type: none"> • The Charter should be updated to reflect the more up to date Accounts and Audit Regulations 2015. • The Charter should be more explicit in stating that Internal Audit should be notified of all suspected or detected fraud. • The nature and definition of consulting services should be included within the Charter. • Consideration should be given to including a timescale for review of the Charter (e.g. annually or bi-annually) rather than periodically. 	<p>Agreed. Refreshed Charter to be presented to Audit Committee</p>
2	<p>Whilst all staff undertake CPD and training, both in-house and through their respective professional bodies, the record-keeping of this is not up to date. Improvements in this area were identified through the self-assessment.</p>	<p>Comprehensive record-keeping should be introduced to capture staff training and CPD activities.</p>	<p>Agreed.</p>

No.	Observation	Recommendation	Management Response
3	The Standards require that a Quality Assurance and Improvement Programme (QAIP) is developed which covers all aspects of the internal audit activity and enables conformance with all aspects of the Standards to be evaluated. The QAIP should also assess the efficiency and effectiveness of the internal audit activity and identify any areas for improvement.	The QAIP should be developed and formally reported to the Board. An assessment of the performance against the QAIP should be undertaken annually with the results reported to the Board. This will allow the CAE to confirm annually that the audit activity has been undertaken in accordance with the Standards if supported by the results of the QAIP assessment.	Agreed. QAIP and Service review to be presented to Audit Committee
4	The self-assessment identified that the current Key Performance Indicators (KPIs) for the service are in need of a refresh.	The current KPIs should be reviewed and updated. Once the revised KPIs have been developed, performance against the indicators should be included in the Annual Assurance Report to the Board.	Agreed. To be considered as part of service review
5	An audit of corporate risk management arrangements has not been performed for some time.	Schedule an internal audit review of corporate risk management arrangements.	Agreed. Options to be considered.
6	Whilst it is clear that there is consideration of fraud risk, value for money and IT risk at the scoping stage, this process is not formally documented within the audit planning template.	Consideration should be given to incorporating value for money, fraud risk and IT risk in to the audit planning template.	Agreed.
7	It was evident that audit system risks, controls, testing and evaluation of results are recorded and evidence, however	Consideration should be given to enhancing the current arrangements for the management review of working papers so that a clear and consistent	Agreed.

No.	Observation	Recommendation	Management Response
	some inconsistencies were observed in documenting evidence of management review.	approach to review is evidenced.	
8	There are described systems of audit in place supported by the Audit Manual. However, there is a need to refresh the Audit Manual to reflect the Standards.	Audit Management to update the Audit Manual to reflect the Standards, as outlined in the Service Improvement Plan.	Agreed.
9	Engagement results do not include narrative regarding the limitations on the distribution of the results.	Consideration should be given to the inclusion of Freedom of Information riders on audit report templates to address this requirement.	Agreed.