

Manchester City Council Report for Information

Report to: Audit Committee - 22 March 2018

Subject: Head of Audit and Risk Management Annual Audit Opinion

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 Head of Internal Audit Annual Opinion.

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.

Recommendations

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

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 2017/18
- Internal Audit Quarterly Assurance progress reports 2017/18 to Audit Committee

1. Introduction

- 1.1 This report provides a summary outturn of the work of the Internal Audit Section for the 12 months April 2017 to March 2018 with the annual opinion of the Head of Internal Audit. Update reports including assurance opinions have been provided to Audit Committee during the year.

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. As in previous years the context in which the Council operates remains a fundamental challenge to objectives and delivery however there has been some stabilisation in critical service areas including ICT which has reduced exposure to risk. Active management and review continues to be required to assess and address savings requirements which remains a critical challenge to the organisation and impacts on the Council's ambitions and priorities.
- 2.2 Council objectives and priorities are set through a defined process. They are aligned with the strategic aims set out in the Our Manchester Strategy and are underpinned by a clear programed of staff engagement and communications. Processes link business objectives, budget and workforce planning and are governed by timely and appropriate layers of officer and Member challenge and scrutiny. These arrangements remain 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.
- 2.3 There are significant developments across the Council including ongoing work in key areas including health and social care integration, highways investment and improvement, strategic development and regeneration and the significant programme of refurbishment for the Town Hall Complex. Much of this requires collaboration with partners in order to meet the ambitious objectives for the City.
- 2.4 There is clear drive and leadership in place in most areas to enable goals to be met however there is a need to ensure capacity and continuity to fully support activity. Work has been undertaken 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.
- 2.5 In the year Internal Audit issued eight "limited" assurance opinions which is less than last year, however four were in Adults Services. Limited and No assurance opinions 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.

- 2.6 Overall 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 Audit was made aware during the year which impacts on the overall opinion were:

Adult Services

- 2.7 There have been four limited assurance opinions in relation to Adult Services in the year in respect of:
- Transition to Adulthood: Whilst there has been regular and timely engagement with management of complex cases and those in crisis, action is needed to confirm the vision and strategy for delivery of transition responsibilities and to develop and then to share a transition offer and plan for delivery.
 - Homecare Services Contract Governance: Improvements required to the level of scrutiny of and payments to providers and monitoring of quality of care. Management recognised the framework does not meet requirements and there is a plan to replace it.
 - Client Financial Services Appointee Support - Cash Delivery: Appointee Support Officers roles needed to be developed and detailed guidance, safety arrangements and cash receipting needed to be enhanced.
 - Disability Supported Accommodation Services – Quality Assurance Framework: Levels of compliance with audits needed to be improved and audit tool further developed to provide management with the best evidence of compliance with the Care Act 2015.

Highways Maintenance

- 2.8 Challenges in developing highways governance, management and performance are well understood with transformation activity well underway and investment plans being delivered. Leadership has been strengthened in the year with the appointment of an Operations Director and the recent decision to further align highways with place-based services under the Deputy Chief Executive Growth and Neighbourhoods. There have been a number of significant changes in this area to enable stabilisation to be achieved but more work is required to finalise the staffing structure and develop robust, consistent governance and financial management arrangements across the Service.

Contract Management and Monitoring

- 2.9 A number of audits and investigations during 2017/18 confirmed the need to develop procurement and contract management arrangements across the Council. Whilst there are areas of positive and best practice this has been inconsistent as reflected in audit findings and reports.
- 2.10 The need for improvement is well understood and a plan of development work has been produced by the Head of Integrated Commissioning that sets out a roadmap for development. Actions have also been taken to strengthen procurement decision making including the implementation of new approval processes across highways and Capital Programmes and strengthened governance and oversight of both revenue and capital procurement. This remains an area of focus for the City Treasurer and SMT for 2018/19.

ICT and Information Governance

- 2.11 ICT governance and performance has been an area of ongoing development in 2017/18 but there remains a need to implement resilient solutions across a number of core ICT systems and for disaster recovery. A clear plan is in place and delivery of improvement is underway but until implemented this remains a key risk to the Council.
- 2.12 Implementation of arrangements to ensure compliance with the General Data Protection Regulations is also a challenge. A programme of activity is underway but significant activity is required by the end of May 2018 to ensure the Council can demonstrate actions taken to achieve compliance with GDPR and further develop effective information management and governance arrangements across all areas and services.

3 Audit Plan Delivery

- 3.1 The following table provides a summary of audit work in 2017/18 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 mid-March with limited carry forward anticipated into the early part of 2018/19 to finalise

work. A full outturn will be reported to Audit Committee in July 2018.

Audit Status	Audit Plan Outputs	Additional and Contingency Items
Final Report Issued	73	4
Draft Report Issued	3	
Fieldwork Completed	6	
Fieldwork Started	18	
Planned	0	
Totals	100	4
Cancelled / Deferred	6	

- 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 and Audit Committee in year and is a lower level than last year. Requests for change were largely due to timescale changes; changing assessment of risk; or because assurance had been obtained from another source. Audits were confirmed to Audit Committee as part of quarterly reporting are recorded on Appendix One for completeness.
- 3.5 The sections below describe assurance and consultancy activity for delivery of the annual audit plan. The status of all work is shown at Appendix One and this includes a limited number of audit activities which have been scheduled to be carried forward for completion into 2018/19.

4 Children and Families

Children's Services

- 4.1 The Ofsted re-inspection has provided independent assurance over the improvement of Children's Services, both in terms of governance and performance of the service. We are also assured over the actions taken since re-inspection to ensure that the improvement journey is sustained and that plans moving forward clearly include actions to ensure recommendations from the review are addressed. In particular we recognise that existing strong governance arrangements had been adapted in light of the re-inspection opinion to focus on 'Getting to Good' with clearly described areas of responsibility and plans for service improvement including delivery of key Ofsted improvement actions required.
- 4.2 In advance of re-inspection, a compliance audit on the Multi Agency Safeguarding Hub (MASH) provided limited assurance. The audit focused on referrals received between September 2016 and February 2017. Based on the work undertaken over this period, we noted issues over compliance with policies and procedures for processing referrals and enquiries. This was

primarily due to issues with the overall timeliness of the process and associated reporting; recording consent and the need to update and consolidate guidance and procedures. Management confirm that progress has already been made to address the issues and an Ofsted monitoring visit in July was positive, describing it as a safe, timely service supporting our view that there was a positive capacity to improve. Follow up work to assess progress to improve the limited audit opinion is focused as agreed on the implementation of recommendations to strengthen the controls in place and testing has focused on the period May to September 2017 to confirm improvement in timeliness and recording consent. Progress has been slower than planned as actions to implement new procedures including an SLA with the Customer Service Centre are still being put in place. Progress in the implementation of recommendations in this area will be reported to Audit Committee in line with current monitoring arrangements.

- 4.3 Substantial assurance was provided over the Children's Services Quality Assurance Framework, improving on the moderate assurance from the previous audit. We confirmed the framework was operating as intended, that the required number of monthly audits were being completed and that audit tools had been improved to provide a structured template for compliance with standards and performance improvements.
- 4.4 Internal Audit engaged with colleagues across Greater Manchester (GM) in relation to Troubled Families (TF) after agreement was reached with government to re-profile TF funding as part of the GM Reform Investment Fund. This provided an opportunity to think differently about how investment is focused on creating a more sustainable model to support families and individuals with complex issues and those that need early help. Work was required to confirm the programme of audit support for this new arrangement and Internal Audit contributed to that process by hosting events for GM Troubled Families practitioners and auditors to seek agreement to a governance and assurance framework. Core principles and an outline for this have been developed to support effective assurance arrangements over the funding arrangements.

Adult Services

- 4.5 A number of limited assurance opinions have been issued in respect of the Adult Service in year and the risk this presents to the system of internal control and governance. In particular audit work in the following areas demonstrates that there is a need for improvement in a number of business critical areas. Management are aware of these issues and are seeking to address them. Internal Audit will consider where to best support this activity as part of the 2018/19 audit plan.
- 4.6 An audit of arrangements to support young people transitioning from Children's to Adults' services provided limited assurance. The work focused on strategy and governance arrangements; roles and responsibilities; and management information and reporting in relation to delivery of the requirements of the Care Act 2015. While there was regular and timely engagement with and

management of complex cases or those entering a crisis state there was a lack of clarity of vision and strategy for overall discharge of transition responsibilities. In addition there was a need to develop effective policies and procedures to enable all the requirements of the Care Act to be appropriately discharged. Management had already identified that there were issues with some of the processes involved in transition and had commissioned a project manager to identify improvements but action to implement change had not been followed through due to volume of operational work. Following the audit report a workshop was held to assess the current position and to direct action to address the exposure to risk within the system.

- 4.7 Client Financial Services (CFS) Appointee Support - Cash Delivery was given limited assurance for the effectiveness of systems in place for dealing with customers cash where the Council acts as appointee. Internal Audit supported the principle of a new role of Appointee Support Officer (ASO) however there were some limitations within the role as designed and operated which needed to be addressed before further roll out was considered. We made recommendations for more detailed guidance; safety arrangements for ASOs to be enhanced; cash receipting improved to ensure customers money was delivered in good time; and management assurance arrangements. Management had already recognised some of the issues and were seeking to take action to address them during the audit and before further roll out was considered.
- 4.8 Homecare is for the support of older and disabled people to stay at home (when it remains a safe option) and enabling people to return home from hospital promptly reducing the number of delayed transfer of care cases. The Homecare contract is due for renewal and the audit was planned to provide assurance over current strengths and limitations within the contract, analysing information for consideration in the commissioning of new arrangements. The audit provided limited assurance because of concerns over the effectiveness of the levels of scrutiny over service delivery and payments made to providers including the overall management and control of suppliers both on and off framework. Recommendations have been made to address these concerns within the new arrangements in 2018.
- 4.9 For the Disability Support Accommodation Services we provided limited assurance that the Quality Assurance Framework was operating effectively or in accordance with expectations to support delivery in line with legislation. The main issues were that the overall completion rate of audits was around 40%; the audit tool was too broad and did not provide management with the best available evidence to confirm compliance with the Care Act; and follow up processes were insufficient to confirm improvement actions had been implemented or to inform lessons learned. We agreed with management that we would stop our compliance testing at an early stage as the framework was not operating as intended and are now focusing audit resource to supporting management with a redesign.
- 4.10 The Afghan Resettlement Grant resulted in substantial assurance that grants submitted to Home Office complied with grant conditions and requirements.

Claims were made in accordance with the agreed rates and were supported by appropriate evidence. Claims were processed accurately and in a timely manner, and where a payment error was made, it was identified via the reconciliation process and corrected. Two compliance recommendations were made to improve oversight of cash support payments and overall financial expenditure of the grant funds

- 4.11 Health and Social Care Integration is a key opportunity and the scale of change and transformation in Manchester is substantial. There is a robust level of officer and Member leadership and oversight of the wide range of activities ongoing in support of integration and Internal Audit have remained abreast of developments. 2017/18 formal assurance will be obtained over governance arrangements as part of audit work currently planned and due to start before the end of March. This is intended to provide high level assurance over governance arrangements but this work will increase further in 2018/19.
- 4.12 Engagement with health partners and health auditors in respect of forward audit planning for Manchester Health and Social Care Commissioning and the Local Care Organisation has continued. Recognised as a key service priority the aim is to ensure appropriate audit coverage is obtained through joint / coordinated audit plans for these areas and are in place for the start of the new financial year. With colleagues in Mersey Internal Audit Agency we are developing an audit protocol and will confirm audit plans and reporting with Audit Committee in the 2018/19 Annual Audit Plan.

Education and Skills

- 4.13 In our thematic audit of e safety we provided moderate assurance over the effectiveness of arrangements to ensure pupils are safeguarded in their use of technology. All of the sampled schools had an effective filtering system in place however monitoring approaches varied from direct supervision of pupils using ICT equipment to specialised monitoring systems that offered keystroke recording and real-time alerts of all users. There was no central guidance and we found a wide variety of E-Safety Policies; of practice in requiring staff and pupils to sign Acceptable Use Agreements/Policies; content of E-Safety pages of the school's websites and other methods of parental engagement; and the extent of staff training. We developed an Internal Audit circular for issue to all Manchester schools advising on key risks and good practice in relation to e-safety. This includes the key controls to ensure compliance with statutory guidance, highlights some potential risks that schools should be aware of and shares practical suggestions and good practice identified during our visits.
- 4.14 Whilst not undertaking any standard school audits in the current year we have delivered a number of fee earning audits in year for individual schools on request. While opinions are not reported to the Council the common themes have been assessed and learning and advice shared with all schools where appropriate to support good governance. We have also presented at a number of school business manager events focusing on purchasing and procurement providing an opportunity for discussion and debate in relation to good practice

and risk and will be attending Chair of Governor briefings on key topics including GDPR.

5 Corporate Core

Information and ICT

- 5.1 Internal Audit and colleagues in Risk Management have been involved in work streams for General Data Protection Regulations (GDPR) preparation, providing advice and support. This is a significant area of development for the organisation as it replaces and enhances the requirements of the Data Protection Act when it goes live in the UK in May 2018. There is a need for adaptation and development of the principles of data management and control environment in order to comply with the legal changes. Given the scale of data retained and shared across the Council and with partners; and the need to strengthen general information management arrangements that align with ICT and other improvement activities this is a significant programme of work that will be a key focus for the Council in April/May 2018. For example decisions need to be taken on how to assure compliance with privacy notice conditions and document retention policies across all services which is work currently underway. Internal Audit will continue to engage with this project to support readiness for GDPR implementation and will also consider further formal assurance requirements for 2018/19.
- 5.2 GDPR is one of a large number of projects in development or implementation across the Council. The approval and monitoring of all projects is overseen at high level through the corporate ICT Board and at Directorate Level ICT Boards. Progress and financial commitments are monitored and managed through this process and also through the Strategic Capital Board providing oversight of spending and decision making. The ability to meet the scale of demand for ICT development and support to support transformation, change and business as usual activity remains a challenge and the strengthened governance in this area is critical to support decision making over relative priorities and the associated allocation of financial and ICT staffing resources.
- 5.3 Application audits of SAP and the One system and a separate audit of software licencing are underway and will report in April. The audit plan also included a proposed audit of the ICT Data Centre replacement proposals as outlined to Audit Committee by the Chief Information Officer ("CIO") in October 2017. Given the importance of this decision in addressing long standing ICT resilience concerns and the complexity of the overall programme, an external review was commissioned. This focused on the proposed new technology, data centre solution and network design. The report was finalised in December and supported the approach being taken. It noted that the planned programme should help address a number of key risks to the Council around the provision of ICT services and the ability to cope with untoward and unexpected events. This conclusion aligned with the overall assessment of Internal Audit and has enabled work on the delivery of this programme to commence.

- 5.4 Data analysis work from Internal Audit highlighted significant accuracy issues in relation to the allocation and use of mobile devices and we were only able to provide limited assurance over the accuracy of billing and appropriateness of usage. This was largely due to the quality of data in respect of who 'owned' connections. Without good quality data it has proven difficult to correctly monitor and manage usage, recharge correctly or challenge inappropriate usage. Issues were also noted in respect of an absence of clear processes to control inappropriate, excessive or non-usage of devices. Some initial and immediate actions were agreed with HR and ICT which will help to address some of these issues including direct follow up with 'owners' of devices where usage is reported as substantially and unusually high.

Financial Systems

- 5.5 Substantial assurance was provided for compliance with key procedures for the Council's income and debt management system operated in SAP. Audit work concluded that the system was well controlled and operating as intended. No significant concerns were identified in testing within invoicing; debt management; credit notes; and write offs however there were three recommendations made to enhance controls. The audit also identified that invoice delays were contributing to the difficulty of collecting associated debts. This issue is not within the direct control of the accounts receivable and debt recovery team and Internal Audit will consider whether this is an area for further consideration as part of audit planning 2018/19 in order to assess barriers to timely actions being taken to issue invoices.
- 5.6 Development of the arrangements for approval and monitoring of organisation-wide capital spend through a capital strategy overseen by the Strategic Capital Board have been positive. There is a clear commitment to improving scrutiny at the highest levels of the organisation, with roles and responsibilities for portfolios and programmes of investment. This has enabled all capital spend, whether on highways, capital programmes, ICT or other projects, to be monitored and overseen and scrutinised by a senior officer group. The application of this approach should lead to a consistency in the content and evaluation of business cases although it is recognised that the cultural and procedural change associated with the new approach will take time to embed. This audit also provided assurance over the implementation of a long standing audit high priority audit recommendation relating to the development of capital project key performance indicators and performance reporting. Whilst this system is relatively new and will likely need to be adapted to respond to lessons learned, the new arrangements are a positive step in the overall coordination and oversight of capital funded activity across a wide range of Council services.
- 5.7 Regular continuous auditing reviews of payroll data were carried out to assure the accuracy and validity of the processing of transactions using payroll standing data and monthly payroll data. No significant anomalies were identified in this work. Based on materiality and volume of transactions payroll lends itself to data analysis and it is proposed to continue to use the data based approach, utilising computer assisted audit tools and techniques to

enable complete reviews of all transactions to detect any anomalies, exceptions and irregularities that sample testing would have been unlikely to identify.

- 5.8 A review was carried out to provide assurance that cost centre managers and project managers were able to provide for effective control and scrutiny over revenue and capital expenditure respectively. Although we identified a number of minor issues around SAP approval workloads, training and guidance, we did not identify any significant impacts on the proper approval process in SAP that undermined the system of internal control.
- 5.9 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.

Other Core

- 5.10 Internal Audit provided advice on voluntary and community sector ("VCS") grants. Specifically this related to the design of the application packs for the Cultural Partnership Agreements and Our Manchester VCS Grants, to enhance the information requested from applicants in order to better inform application assessments and decisions over grant awards. The focus has been on how to assess and manage assurance over the sufficiency of financial management and governance arrangements of grant applicants and to enhance due diligence. It was proposed to carry out compliance testing on the due diligence checks carried out prior to formal award of contracts and this is underway.

6 Growth and Neighbourhoods and Strategic Development

Waste Management

- 6.1 Substantial assurance was provided over the governance and management of the waste management collection, recycling and cleansing services contract. This reflected the robust controls over governance and the performance management arrangements, which provided the basis to challenge poor performance and non-compliance. We noted that the ability of the contractor to fully meet the specification and expected standards set out in the contract had been and remained a challenge however there was a clear commitment to demonstrate improved performance as part of an improvement plan on street cleansing. Management and Members have been made aware of the key risks and continue to take actions to support achievement of sustained improved performance and desired outcomes.
- 6.2 Waste management payment performance indicators (PPI) were reviewed to provide advice and guidance on the development of the new approach. The review determined that good progress has been made to refine the definitions

of the PPI measures which need to be approved by the Strategic Board. Some areas for improvement were noted that included clarification of the method for deducting penalties from contractor payments; enhancing documentation used to support changes to decisions on performance measures; and the recording of key strategic decisions over the process. Management are seeking legal opinion to ensure that the clarifications are in line with the contract and where possible that they are incorporated into the contractual document before it is signed.

Highways

- 6.3 Following significant concerns in Highway Services and reports to Senior Management Team, Executive, Scrutiny Committees and Audit Committee over the last twelve months, a transformation project is well underway with appropriate stakeholders involved and a clear recognition of wholesale and significant changes to be made. This is well underway with greater oversight provided through the Strategic Capital Board and the development and implementation of a range of improvement plans. The strategic leadership for the service has been further strengthened by the recent inclusion of the service under the portfolio of the leadership of Deputy Chief Executive Growth and Neighbourhoods who is aware of and is prioritising action to support completion of improvement actions.
- 6.4 There have been a number of significant changes in this area to enable stabilisation to be achieved while an interim manager was in post and this took longer than anticipated. Whilst progress has been made there is still substantial work required to finalise the staffing structure and develop robust, consistent governance and financial management arrangements across the Service. Further assurance work is planned by Internal Audit to assess progress in the specific area of potholes and patching which will be completed in the next four weeks.

Fleet Management

- 6.5 Overall we gave moderate assurance over the framework in place for contract governance in relation to Fleet Services contracts due to the informal approach over contract management. We established that formal review meetings and performance reports were not in place, key performance indicators were not clearly defined or monitored and there was a lack of senior management oversight of contract delivery. However, good relationships were being maintained with suppliers and we were assured by contract managers that operational issues were normally resolved promptly and effectively. In addition, we were satisfied that processes were in place to ensure charges were correct and were assured that the operational aspects of the contract were working effectively. We made recommendations to strengthen performance monitoring and reporting.
- 6.6 From a review of the fleet collaboration project we noted that there was very little clear evidence of collaboration service improvements beyond the benefits of collocation between the Council Fleet Services Team and Greater

Manchester Police Fleet Services. This was in part due to the high workloads across both teams and the differing approaches applied to address specific matters such as cost efficiency. We proposed management review this approach in conjunction with GMP to confirm it was in line with expectations.

Other Growth and Neighbourhoods / Strategic Development

- 6.7 In response to a legal challenge whereby an enforcement notice had to be withdrawn as it had the wrong signatory and was not in line with the Council's Constitution, Community Safety and Compliance and Enforcement (CSC&E) management implemented an annual constitution review process. This was developed to ensure that all officers are correctly authorised to carry out enforcement duties including having suitable qualifications, training and experience; that all authorisations are in accordance with the Constitution; and that appropriate records are retained. Internal Audit were asked by senior management to provide assurance over the new review process and were able to provide substantial assurance over the process and confirmed that legal notices tested were in compliance with requirements.
- 6.8 Internal Audit were asked to undertake an independent assessment following delays in agreeing and signing off a pre-construction service agreement for one of the Council's commercial properties. We provided advice in a number of areas for consideration in future contracts including improved engagement with Legal Services, improved governance arrangements and clearer scoping of the project. We also provided advice and guidance at the request of the City Treasurer in regards to the LED Street Lighting Retrofit. We suggested a number of areas for consideration for improvements including the development of an approach to help inform decisions around aesthetics and output, the inclusion of an independent check on the output of LED lights to ensure the agreed output specification is being achieved and improvements in performance reporting.

7 Procurement, Contracts and Commissioning

- 7.1 A specific programme of audit work was completed focused on procurement, contracts and commissioning activities across the Council. This work confirmed risks in the consistency and quality of contract governance arrangements 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.
- 7.2 Audit work completed in this area over the last couple of years was reflected in an overall review of commissioning and contract management undertaken by the Head of Integrated Commissioning. The findings of this review were taken from a range of sources and were consistent with audit recommendations and issues of concern. A plan for organisational improvement has been developed and agreed with SMT and Audit Committee to confirm actions planned to address areas of risk. Audit work has included support to the development of this plan and the sharing of key findings and issues for onward communication

to contract managers and procurement officers across the Council for them to consider in the design and development of contract management arrangements.

- 7.3 For example, a limited assurance opinion was finalised over contract creation and formalisation. This audit concluded that there were significant gaps in compliance with corporate requirements for contract signature and retention that presented risks to the Council's ability to exercise effective control and oversight of contracts. The issues from this audit were agreed by the City Solicitor and have been incorporated in a current review of the Council Constitution and associated guidance being led by the Head of Integrated Commissioning and Legal Services.
- 7.4 In addition to planned audit work, a small number of audit investigations have been undertaken in relation to alleged irregularities in past procurement and contract management arrangements. The key findings from these investigations have been shared with senior officers and actions have already been taken to improve systems of control identified in this work. All the issues raised have been incorporated into an action plan to ensure that ongoing actions are taken to address risks noted from these reports.
- 7.5 Not all audits of contract management have raised concerns and there have been areas of good practice noted from reviews. Substantial assurance was provided over Facilities Management contract governance where the external security contract was reviewed. Staff monitoring the contract demonstrated relevant experience and had suitable procedures in place to ensure that the required level of service was being achieved and we made one recommendation regarding insurance cover that was immediately addressed.
- 7.6 A review of the contract governance framework in place for social transport confirmed that the Travel Coordination Unit team worked well to maintain appropriate management processes over the contract. While they were unable to undertake traditional contract management activities, such as regular formal meetings with all 52 suppliers on the framework, they had established compensating controls including regular communication with suppliers through an allocated officer and had ensured monitoring processes were in place to promptly identify and address any issues with safeguarding, delivery and charges. Recommendations made were to develop monitoring arrangements to enable a more informed assessment of the overall level of performance of suppliers, assessment of social value contributions and to ensure appropriate penalties are applied where contract requirements are not met.
- 7.7 Substantial assurance opinion was given for the utilities contract management arrangements which were found to be effective in a number of areas, with the work led by a knowledgeable team who applied expertise well. Performance management was effective with CO2 emissions monitored and reported and ad hoc reports produced to assess energy usage in individual buildings. Cost control was supported well through the use of a system (Systemlink) to ensure correct charges were applied. There were some areas of improvement including a recommendation to define assurance requirements for senior

management and enhance analysis of trends. We also identified the potential for enhancing cost control with some further reconciliation checks between monitoring and payments data for which recommendations have been made.

8 Counter-Fraud and Investigations

- 8.1 Detailed information in relation to anti-fraud and investigations for 2017/18 will be presented in the Annual Fraud Report to be presented to Audit Committee in July 2018. 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.
- 8.2 There were two complaints received in year about the right to share and/or access third party information as part of investigation activity. Following independent review the service introduced a more robust method of documenting its public interest test and this is used as part of the risk assessment and planning process assured by management.

Proactive Work

- 8.3 The Whistleblowing Policy, incorporating changes requested by the Audit Committee in March 2017 was presented to Standards Committee for oversight in November 2017. Following some discussion over which Committee was responsible for formal approval, the Standards Committee asked that this matter be resolved by amendment and clarification to the Constitution in its next, regular revision in May 2018. There was also discussion around arrangements to ensure that contractors have effective whistleblowing arrangements in place and to understand the scale of allegations made to Prescribed Bodies in line with the Policy.
- 8.4 New identification scanning equipment procured by Internal Audit went live as planned in July 2017 and have provided an additional level of assurance over the systems to detect and prevent fraud. Devices were introduced within the Customer Service Centre and Alexandra House. Following this the Taxi Licensing Unit have entered a one-year agreement to use two further devices to assist with the taxi application process. Internal Audit is now liaising with HR with regard to the use of scanners as part of required recruitment checks.
- 8.5 Work continued in relation to the National Fraud Initiative with data matches assessed for quality and verified to establish if there is evidence of any significant fraud or error. Internal Audit continue to liaise with Directorates through assigned staff with regard to the completion of relevant checks required on numerous data matches and there have been no reported significant matters arising at this time. An update report will be produced including areas deemed high risk in terms of outcomes and timescale for completion for consideration by the City Treasurer.

Reactive Corporate Cases

- 8.6 Internal Audit received 56 referrals of potential fraud, theft or other irregularity in the year April 2017 to March 2018 of which 36 were handled under the Council's whistleblowing policy. Some of the case work is complex with multiple issues and can involve partners and third party relationships which adds to the challenge of co-ordinating responses. Some work has been resource intensive in order to effectively investigate allegations and concerns and this has seen a significant pressure on resources available and the need to enhance and confirm risk assessment and prioritisation.
- 8.7 Internal Audit have further strengthened 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 process has included referrals to others where appropriate including managers; HROD; 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 ongoing support from Internal Audit based on the need for collation of evidence and witness statements.
- 8.8 Allegations investigated have included substantial theft of monies from two separate schools; theft; abuse of position; procurement and contract award irregularities; Business Rates fraud; overtime; and gifts and hospitality irregularity. Where appropriate and supported by evidence this has led to suspension of staff and disciplinary action; custodial sentence; recovery of assets or money; and in some cases confirmation that there is no case to pursue.
- 8.9 Following successful prosecution with custodial sentence in a case of theft of dinner monies £30,396 has been repaid to Varna Street Community Primary and an application for the balance of £17,323 has been made to the Greater Manchester Pension Fund.
- 8.10 Following an investigation into business rates evasion an invoice was raised to recover the historic liability of £49,701 due to the Council; a payment plan has been established by the business and normal recovery processes applied.
- 8.11 The first hearing in relation to alleged theft of over £30,000 from Abraham Moss Community School took place in Crown Court in January 2018 and a trial date has been set for September 2018.

Council Tax Reduction Scheme, Housing Tenancy and Right To Buy

- 8.12 Of cases received in respect of Council Tax Reduction, Housing Tenancy and Right to Buy the key outcomes have been:
- Three administrative penalties with a total value of £1,362 issued.
 - The Council is able to recover £14,237 of Council Tax Reduction overpayments.

- £64,532 of wider public sector benefits, including Council Tax Benefit, Single Adult Discount, Housing Benefit and Discretionary Housing Payments has been identified as recoverable.
- Investigation work has prevented award of two fraudulent applications for Right-to-Buy discount with a total value of £92,800. Work is continuing in relation to additional cases with total discounts valued in excess of £300,000.
- Keys have been returned in relation to four properties, where it was alleged tenants were illegally subletting. Notional value of savings is estimated to be £108,000.
- A successful prosecution was obtained at Magistrates Court in January in relation to a case involving subletting offences under the Prevention of Social Housing Fraud Act (POSHFA) 2013. The individual was ordered to pay £320 fine, a £32 Victim Surcharge and £500 costs. The Registered Provider is subsequently considering eviction.
- Another case involving POSHFA offences was successfully prosecuted at Magistrates Court in February 2018. A 21 week custodial sentence, suspended for 18 months, was awarded with a requirement for 250 hours of unpaid work. An unlawful profit order was also approved for £2,000.

9 Recommendation Implementation

- 9.1 The total number of critical, major or significant priority recommendations fully implemented across the Council as at 10 March 2018 was 67% with a further 8% partially implemented as shown below. Combined this is above the target of 70% for implementation. This demonstrates the renewed focus management are placing in addressing areas of exposure to risk and demonstrates the impact of more active review and escalation of audit implementation management and the supportive role of Audit Committee in challenging reasons for implementation of agreed actions.
- 9.2 A separate report is now provided regularly to Audit Committee on all outstanding critical, major and significant 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	40	23	2	5	10
Children & Families	35	24	2	4	5
Growth & N'Hoods	23	18	4	0	1
Total	98	65	8	9	16
Total %		67	8	9	16

10 Conclusion





10.1 Members are asked to consider the Internal Audit Annual Assurance Report 2017/1

Appendix 1: Audit Status, Opinions and Capacity to Improve (where assessed)

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Brought Forward from 2016/17			
Children's Services: Multi Agency Safeguarding Hub (MASH) – compliance audit	Final	Limited ●	High
ICT: Disaster Recovery (29 June 2017)	Final	Limited ●	High
ICT: Academy Business Application (3 August 2017)	Final	Moderate ●	Medium
ICT: Programme and Project Management (30 June 2017)	Final	Substantial ●	High
ICT: Barclays.net (16 May 2017)	Final	Substantial ●	High
ICT: Joiner, Mover and Leaver Processes (19 July 2017)	Final	Assurance Review: No Formal Opinion	
ICT: Internet & email filtering (27 July 2017)	Final	Moderate ●	Not set
Core: PCI DSS – Operational Compliance (22 June 2017)	Final	Assurance Review: No Formal Opinion	
Core: Capital Budget Monitoring (15 May 2017)	Final	Substantial ●	High
Core: Benefits Administration & RBV (27 July 2017)	Final	Substantial ●	Not Assessed
Core: Highways Maintenance – follow up (18 May 2017)	Final	Moderate ●	Not Assessed
Core: HROD Redesign – Resourcing ATS System (3 July 2017)	Final	Moderate ●	Not Assessed
Core: HROD New Appraisal Process Planning Approach (23 August 2017)	Final	Substantial ●	Not Assessed
Core Legal Services Income & Expenditure (17 October 2017)	Final	Moderate ●	Not Assessed
Growth and Neighbourhoods: Waste Service Request Compliance (18 May 2017)	Final	Moderate ●	High

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Growth and Neighbourhoods: Development and Implementation of Selective Licensing (18 May 2017)	Final	Moderate 	Not Assessed
Procurement, Commissioning and Contracts: Housing Contract Management (5 April 2017)	Final	Substantial 	High
Procurement, Commissioning and Contracts: Contract Creation and Formalisation (12 January 2018)	Final	Limited 	Medium
Adults			
Afghan resettlement process grant certification (19 October 2017)	Final	Substantial 	High
Client Financial Services (CFS) Appointee Support - Cash Delivery	Final	Limited 	High
Transition to Adulthood (18 December 2017)	Final	Limited 	High
Disability Supported Accommodation Services, Quality Assurance Framework (14 February 2018)	Final	Limited 	Set at Final
Health and Social Care Integration	Planning	Set at Draft	Set at Final
Mental Health Safeguarding	Cancelled		
Children's Services			
Children's Services Quality Assurance Framework (7 July 2017)	Final	Substantial 	High
Troubled Families – Assurance Framework	Final	Engagement and advice in design of assurance arrangements for TF	
Troubled Families – validation of performance data	Draft	Moderate 	Set at Final

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Multi Agency Safeguarding Hub (MASH) – follow up audit. New Work	Fieldwork Started	Set at Draft	Set at Final
Ofsted Improvement Actions			
Complex Safeguarding: CME / CMH / CSE			
Early Help - Compliance			
Payments to Carers			
Children's Safeguarding Governance	Planning	Set at Draft	Set at Final
Education and Schools			
Thematic Schools audit: E Safety (16 February 2018)	Final	Moderate ●	medium
Thematic School audit: Data Security	Fieldwork Started	Set at Draft	Set at Final
Schools Financial Value Standard (SFVS)	Fieldwork Started	Set at Draft	Set at Final
Corporate Core			
GMPF (grant certification) (8 May 2017)	Final	Grants Audits so no formal opinion or capacity to improve assessment	
Growth Deal (Grant Certification)(21 July 2017)	Final		
Carbon Reduction Commitment (Grant Certification) (31 July 2017)	Final		
Disabled Facilities Grant (10 August 2017)	Final		
Highways (LTP HCM) (Grant Certification) (29 September 2017)	Final		
Highways (Challenge Fund) (Grant Certification) (29 September 2017)	Final		
Highways (Pinch Point) (Grant Certification) (29 September 2017)	Final		

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
URBACT 3 claim 3 (Grant Certification) (29 September 2017)	Final		
Highway Maintenance Efficiency Programme (Grant Certification) (1 February 2018)	Final		
Payroll Continuous Monitoring (Q1) (7 July 2017)	Final	Assurance Review: No Formal Opinion	
Expenses – Compliance (22 August 2017)	Final	Moderate 	Not set
Treasury Management (16 August 2017)	Final	Full 	Not set
Mobile Connections – Data Analysis (31 October 2017)	Final	Limited 	High
Payroll Continuous Monitoring (Q2) (18 October 2017)	Final	Assurance Review: No Formal Opinion	
Income and Debt Management (SAP) Compliance (30 November 2017)	Final	Substantial 	High
Capital Financial Strategy Governance and Assurance (14 December 2017)	Final	Advice and Guidance	
Payroll Continuous Monitoring (Q3) (13 December 2017)	Final	Assurance Review: No Formal Opinion	
LED Lighting Retrofit New Work (22 December 2017)	Final	Advice and Guidance	
Public Service Network: Code of Compliance (6 February 2018)	Final	Assurance Review: No Formal Opinion	
Parking PCNs Income Loss New Work (17 January 2018)	Final	Advice and Guidance	
Council Tax (6 February 2018)	Final	Full	Not set
SAP Expenditure: Cost Centre	Final	Substantial	Not set

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Manager Approval Data Analysis (27 February 2018)			
Income & Debt Management – Investment Estate (Compliance) (28 February 2018)	Draft	Moderate	Set at final
SAP access and segregation working group New Work	Fieldwork Started	Advice, guidance and engagement in development of SAP access controls	
HR Transformation Programme	Fieldwork Started	Advice, guidance and engagement in development of new HR processes	
Factory (Grant Certification)	Fieldwork Started	Grants Audit so no formal opinion or capacity to improve assessment	
URBACT 3 claim 4 (Grant Certification)			
Highways (Cycle City 2) (Grant Certification)			
Annual Governance Statement			
General Data Protection Regulations (GDPR)		Set at draft	Set at final
MiCare Replacement System NOW Liquid Logic – Data Migration & Testing			
ICT Application Audit 1 (SAP)			
ICT Application Audit 2 (One System)			
VCS and Culture Grants - Due Diligence New Work			
Payroll Continuous Monitoring (Q4)			
Disclosure and Barring Service (Safeguarding)			
IR35 contractors and staffing review	Planning		
Going Google			
ICT Software Licensing			
Business Rates Continuous Auditing	Not Started	Set at draft	Set at final
Highways Contract Review -			

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Assurance			
Highways - Pothole and Patching Review			
ICT: Data Centre Replacement	Assurance obtained by other means		
Growth and Neighbourhoods			
Waste Collection, Recycling and Cleansing Services Contract (9 May 2017)	Final	Substantial ●	Not Assessed
Community Safety, Compliance & Enforcement Annual Constitution Review Process (28 July 2017)	Final	Substantial ●	High
Pre-Construction Service Agreement (2 August 2017) New work	Final	Advice and Guidance	
Waste Contract – Price Performance Indicators (3 January 2018)	Final		
Christmas Markets: Follow Up	Final	Not set	Not set
Leisure GLL Retender 2018	Complete	Advice and Guidance	
Retail Markets - Financial and Management Health Check	Planning	Set at draft	Set at final
Selective Licensing - 12 month Review	Cancelled	Assurance was taken from Project Governance and Committee	
Our Town Hall - Security	Field Work Started	Set at draft	Set at final
Our Town Hall - Governance	Field Work Started	Set at draft	Set at final
Northwards Capital Programmes Team	Deferred		
Procurement, Contracts and Commissioning			
Contractor Selection and Award: Family, Resource and Intervention	Final	Moderate	High

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Framework (FRIF) (2 May 2017)		●	
Contractor Selection and Award: Manchester's Service for Independent Living (MSIL) (8 May 2017)	Final	Substantial ●	High
Contract Management: Fleet Services (14 September 2017)	Final	Moderate ●	High
Capital Programmes Block (Contract Payments: Final Accounts) (31 July 2017)	Final	Substantial ●	High
Factory Project: Governance Arrangements (19 July 2017)	Final	Not applicable	
Contract Management: Facilities Management (28 November 2017)	Final	Substantial ●	High
Contract Management: Utilities (24 October 2017)	Final	Substantial ●	High
Contract Review: LED Lighting (4 January 2018)	Final	Assurance Review	
Contract Management: Social Transport (6 December 2017)	Final	Moderate ●	High
Contract Management: Homecare (7 March 2018)	Final	Limited ●	High
Financial Management and Cost Control – Revenue Contracts	Fieldwork Started	Set at Draft	Set at Final
Factory Project: Part 2	Deferred		
Construction and Property Professional Services Framework (CAPPS)	Fieldwork started	Set at Draft	Set at Draft
Social Value	Deferred		
Contract Management Procedures and Processes	Fieldwork Started / Ongoing advice and guidance to procurement and contract		

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
	management and commissioning workstreams		
Contract Management – Performance Reporting	Cancelled		
Proactive Counter Fraud			
National Fraud Initiative	Fieldwork Started	Report to City Treasurer by end March 2018	
NNDR Refunds	Planning		Initial scoping of approach
Vendor Credit Recovery			Third party supplier options being reviewed
Duplicate Payment Reviews			
ID scanner implementation New Work	Complete	Scanners implemented	