



## **Audit Committee**

Date: Tuesday, 26 July 2022

Time: 10.10 am

Venue: Council Antechamber, Level 2, Town Hall Extension

Everyone is welcome to attend this committee meeting.

**There will be a private meeting for Members only at 9.30am in Committee Room 6 (Room 2006), 2nd Floor of Town Hall Extension. A Town Hall pass is needed to reach this room.**

### **Access to the Council Antechamber**

Public access to the Council Antechamber is on Level 2 of the Town Hall Extension, using the lift or stairs in the lobby of the Mount Street entrance to the Extension  
**There is no public access from the Lloyd Street entrances of the Extension.**

### **Filming and broadcast of the meeting**

Meetings of the Audit Committee are 'webcast'. These meetings are filmed and broadcast live on the Internet. If you attend this meeting you should be aware that you might be filmed and included in that transmission.

## **Membership of the Audit Committee**

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### **Councillors -**

Lanchbury (Chair), Curley, Flanagan, Good, Russell, Simcock, and Wheeler

**Independent Co-opted Members –** Dr S Downs and Dr D Barker

## Agenda

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- 1. Urgent Business**  
To consider any items which the Chair has agreed to have submitted as urgent.
- 2. Appeals**  
To consider any appeals from the public against refusal to allow inspection of background documents and/or the inclusion of items in the confidential part of the agenda.
- 3. Interests**  
To allow Members an opportunity to [a] declare any personal, prejudicial or disclosable pecuniary interests they might have in any items which appear on this agenda; and [b] record any items from which they are precluded from voting as a result of Council Tax/Council rent arrears; [c] the existence and nature of party whipping arrangements in respect of any item to be considered at this meeting. Members with a personal interest should declare that at the start of the item under consideration. If Members also have a prejudicial or disclosable pecuniary interest they must withdraw from the meeting during the consideration of the item.
- 4. Minutes** 5 - 12  
To approve as a correct record the minutes of the meeting held on 14 June 2022
- 5. Updated Draft Statement of Accounts 2020/21**  
Report to follow
- 6. Draft Audit Completion report (2020/21)**  
Report to follow
- 7. Treasury Management Outturn report 2021/22** 13 - 34  
Report of the Deputy Chief Executive and City Treasurer attached
- 8. Internal Audit Assurance (Q1)** 35 - 78  
Report of the Head of Internal Audit and Risk Management attached
- 9. Outstanding Audit Recommendations (Q1)** 79 - 104  
Report of the Head of Audit and Risk Management attached
- 10. Prudential Framework Changes** 105 - 114  
Report of the Deputy Chief Executive and City Treasurer attached
- 11. Risk Review Schools Assurance** 115 - 130  
Report of the Head of Internal Audit and Risk Management attached

**12. Work Programme**

131 - 140

Report of the Governance and Scrutiny Support Unit attached

## Information about the Committee

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The Committee is responsible for approving the Council's statement of accounts; considering the Audit Commission's Annual Audit and Inspection Letter and monitoring the Council's response to individual issues of concern identified in it. The Committee also considers the Council's annual review of the effectiveness of its systems of internal control and assurance over the Council's corporate governance and risk management arrangements, and engages with the external auditor and external inspection agencies to ensure that there are effective relationships between external and internal audit.

The Council is concerned to ensure that its meetings are as open as possible and confidential business is kept to the strict minimum. When confidential items are involved these are considered at the end of the meeting at which point members of the public are asked to leave.

The Council welcomes the filming, recording, public broadcast and use of social media to report on the Committee's meetings by members of the public.

Agenda, reports and minutes of all Council Committees can be found on the Council's website [www.manchester.gov.uk](http://www.manchester.gov.uk).

Smoking is not allowed in Council buildings.

Joanne Roney OBE  
Chief Executive  
Level 3, Town Hall Extension,  
Albert Square,  
Manchester, M60 2LA

## Further Information

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For help, advice and information about this meeting please contact the Committee Officer:

Donna Barnes  
Tel: 0161 234 3037  
Email: [donna.barnes@manchester.gov.uk](mailto:donna.barnes@manchester.gov.uk)

This agenda was issued on **Monday, 18 July 2022** by the Governance and Scrutiny Support Unit, Manchester City Council, Level 2, Town Hall Extension (Library Walk Elevation), Manchester M60 2LA.

## **Audit Committee**

### **Minutes of the meeting held on 14 June 2022**

#### **Present:**

Councillor Lanchbury - In the Chair  
Councillors Good, Russell Simcock and Wheeler  
Independent Co-opted member: Dr D Barker:  
Independent Co-opted member: Dr S Downs

#### **Apologies:**

Councillor Curley  
Councillor Flanagan

#### **Also Present:**

Councillor Akbar (Executive Member: Finance and Resources)  
Alistair Newall, Mazars (External Auditor)

### **AC/22/14 Minutes**

#### **Decision**

To approve the minutes of the meeting held on 12 April 2022 as a correct record.

### **AC/22/15 Draft Annual Governance Statement 2021/22**

The Committee considered a report of the Deputy Chief Executive and City Treasurer which presented the draft 2021/22 Annual Governance Statement (AGS), following completion of the annual review of the Council's governance arrangements and systems of internal control. The processes followed to produce the AGS were outlined in the report.

In addition to the scope, purpose and context, the report also included information about:

- The document's format and sections of the document, including an outline of improvements that had been made; namely a focus on producing a more easily digestible document with digital accessibility improvements, in particular for those with visual impairments, to align with good practice.
- How Governance Arrangements are communicated;
- A discussion of next steps and the Annual Governance Statement's Timeline

The Reform and Innovation Manager reported good progress in terms of strengthened and effective governance arrangements such that six of the challenges identified in the previous governance statement had been stepped down in respect of the Action Plan for 2022/23 resulting in an overall reduction in the number to be taken forward.

The main points of discussion in the meeting were:

- In view of its responsibilities for governance arrangements and systems of internal control, the frequency with which the Senior Management Team (SMT) discusses governance matters
- Noting the Head of Audit and Risk Management Annual Opinion 2021/22 was cited as 'reasonable', what actions could be taken to reach a position of 'substantial' assurance.
- The role of Trade Unions in consultations with staff where significant developments were underway.
- The role of the Audit Committee in amending the Council's Climate Change budget and the associated policy development.

In respect of the Head of Audit and Risk Management's annual opinion of 'reasonable', he explained that the opinion had been reached largely in reflection of the scale of change and challenge (the financial pressures the council faces, the scale of ambition in the city as well as recent events that had impacted on Local Authority services). Within that context, the position of 'reasonable' was deemed fair in the circumstances, although the aspiration to attain a rating of 'substantial' remained a priority for the Authority.

With regard to the frequency with which the SMT discusses governance arrangements, the Deputy Chief Executive and City Treasurer confirmed that this was a fairly regular point of discussion, examples of which included the discussion of the AGS, governance updates, the Corporate Risk Register as well as consideration of major cross-cutting themes, deemed to have a strategic impact.

In respect of the relationship with Trades Unions, the Deputy Chief Executive and City Treasurer advised that the Authority had long established a collaborative approach, involving formal engagement and consultation procedures. It was subsequently agreed to give greater prominence to the collaborative the Local Authority adopts with Trade Unions in the Statement.

With specific reference to the Council's agreed Climate Change Action Plan and the agreed budget for carbon reduction targets therein, a member asked about the role of the Audit Committee in amending the Climate Change budget and overall policy development with a view to meeting agreed objectives. The Deputy Chief Executive and City Treasurer explained that the AGS reference to the Plan solely focussed on the governance aspects of the Plan – the extracts outlined in the AGS referred to Local Authority's emissions targets (noting that that two Plans were in place; one for the city as a whole and one solely for the Local Authority) and that it was within the terms of reference of the Council's Environment and Climate Change Scrutiny Committee (E&CCSC) to scrutinise performance against the Plan and put forward any recommendations concerning proposed amendments. She added that the (Local Authority's) Plan was considered on a quarterly basis by the E&CCSC and that the Plan for the city as a whole was scheduled to go through governance processes in late September / early October of this year.

## **Decision**

1. To note the draft Annual Governance Statement 2021/22.

2. To agree that greater prominence to the collaborative approach the Local Authority adopts with Trade Unions shall be incorporated into the Statement.

### **AC/22/16 Register of Significant Partnerships**

The Committee considered a report of The Deputy Chief Executive and City Treasurer which presented the annual overview of the Register of Significant Partnerships 2021. A copy of the Register of Significant Partnership is attached at Appendix 1.

In addition to the scope, purpose and context of the Register, the report also included information about:

- The process followed for the production of the Register
- Entries added to the Register in 2021
- Proposed removals to the Register
- Partnerships where the assurance ratings have improved
- Partnerships where governance strength rating remains 'Reasonable' or 'Limited' following latest assessment
- Partnerships with a 'Limited' rating
- Partnerships where governance strength rating has reduced from 'Significant' to 'Reasonable', 'Limited' or 'Weak' since the last assessment

The Head of Programme Management Office (Commercial Governance & Directorate Support) introduced the report and highlighted that in light of comments from the Audit Committee, the format, range and robustness of questions in the annual self assessment form had been strengthened. In addition, the ratings themselves had been amended to provide consistency across the approach to ratings to align with other systems of governance (including for example, the Annual Governance Statement).

The key points of discussion in the meeting were:

- The proposed removal of Manchester Health and Care Commissioning Group (MHCCG) from the Register
- The extent to which partnership arrangements with the University of Manchester could be included on the Register
- The 'reasonable' assurance rating for the Manchester Safeguarding Partnership (MSP)
- Governance assurance ratings for Tenant Management Organisations (TMO)
- The timeline for the winding up of Manchester Working Limited (MWL)

In response to the proposal to remove MHCCG from the Register, it was agreed that the new successor body (Greater Manchester Integrated Care Board) shall be added to the Register to facilitate regular feedback to the Committee. The Committee noted that the assessment of the new entity's governance arrangements was in hand and that oversight would be established once the arrangements for the place-based lead for Manchester and its relationship with the Board had been agreed.

Noting that the Council had a number of joint development sites with the University of

Manchester, a member asked about the feasibility of their inclusion on the Register. The Deputy Chief Executive and City Treasurer agreed to explore whether any projects / collaborative structures with the University fell within the scope of the Register.

There was a discussion about the 'reasonable' assurance rating for the MSP. The Head of Programme Management Office (Commercial Governance & Directorate Support) advised that a number of activities were taking place to strengthen, governance, scrutiny and accountability within the MSP which indicated a positive trajectory for the entity and had contributed to its 'reasonable' assurance rating.

Noting the positive trajectory of assurance ratings for a number of TMO's on the Register, there was discussion about the importance of maintaining robust governance arrangements for social housing entities within the city. The Head of Programme Management Office (Commercial Governance & Directorate Support) confirmed that the intention was for such entities to remain on the Register and therefore were required to submit evidence on a routine basis. This would sit in parallel with contractual arrangements that were being developed with colleagues in the Council's Audit function to underpin this monitoring arrangement.

In response to a question about the timescale for the winding up of MWL, The Head of Programme Management Office (Commercial Governance & Directorate Support) advised that it was hoped that the next update on the Register would confirm more information on how far the cessation of entity had advanced.

## **Decision**

To note the latest update of the Council's Register of Significant Partnerships

## **AC/22/17 Internal Audit Service Review Update**

The Committee considered a report of the Head of Audit and Risk Management which provided an overview of progress of a service review across the Audit and Risk Management Division, including the background, rationale and implications for the internal audit service.

In introducing the report, the Head of Audit and Risk Management referred to a recent meeting with HR colleagues about the redesigned roles. He indicated that a broad timetable could be shared once those roles had been reviewed by HR colleagues.

There was a discussion about the efficiency of the service as benchmarked by similar authorities. The Head of Audit and Risk Management referred to a number of quantitative and qualitative measures used to capture performance of the audit and risk management function. These included the delivery of the Quality Assurance Improvement Programme, compliance with accepted audit standards, self assessment and feedback procedures and peer review processes as part of external quality assessment procedures.

## **Decision**



To note the service review update and receive further progress reports.

### **AC/22/18 Risk Management Strategy and Corporate Risk Register**

The Committee considered a report of The Head of Audit and Risk Management which provided an update on organisational risk management arrangements; and a copy of the latest refresh of the Corporate Risk Register (CRR).

In introducing the report, the Head of Audit and Risk Management outlined the Strategy and CRR's important role in the Council's governance framework which was routinely discussed at Senior Management and Directorate Leadership level. He highlighted that the Register was scheduled for review later this year and referred to the broad scope and fluidity of risk in terms of how it continues to manifest and impact across the delivery of Council services.

The key points of discussion in the meeting were:

- The extent to which cumulative and / or compounding risk is effectively demonstrated in the Register's three tiered rating system
- The approach taken for the development of risk management targets within the CRR
- The capability / capacity of the workforce with specific reference to the shortage of skills across the workforce, outside of managerial / technical disciplines
- The introduction of cyber-risk as a stand alone item on the CRR
- The prominence of the risks around key suppliers of goods and services

In response to a question about how cumulative risk is communicated in the three tiered system, the Head of Audit and Risk Management referred to some authorities recently introducing the use of purple to capture cumulative / compounding risk which may be considered in the upcoming review of the Register.

There was a discussion about the approach taken for the development of targets for October 2022 – a member noted that in some instances, the targets resulted in those risks being maintained at the current level as opposed to being reduced. The Head of Audit and Risk Management explained that the rationale had been to develop realistic as opposed to aspirational targets, in light of the current uncertainty around financial / fiscal matters, such that it was anticipated that despite appropriate measures being in place, the level of risk remained high. An achievable target of that risk being maintained in short term was therefore in place. Discussions then moved to the target associated with costs of capital and revenue contracts and the implications on pre-existing budget pressures. The Deputy Chief Executive and City Treasurer explained that at the point that CRR was being finalised, the Council was in the process of finalising its energy contracts and as such inflation contingencies were in place. This however did not apply to wider risks associated with medium term financial resources where it would remain unclear until December of this year what the next financial settlement would be and what impact that would ultimately have on the Council's budget position.

A member suggested that greater weighting and explicit reference ought to be given to the lack of skilled tradespeople within the workforce in the CRR's analysis of key risks, given the anticipated impacts such a shortfall could have on the performance and delivery of particular services (e.g. maintenance services) as well as a knock on effect on the associated costs of service provision.

In response to a comment about the introduction of cyber-risk as a stand alone item in the CRR, the Head of Audit and Risk Management explained that whilst cyber-risk should not be considered as a new or emerging risk for the Authority, it had previously been embedded within other risks associated with ICT, data governance and information security. A decision had therefore been made to explicitly reference cyber-risk as a standalone category on the CRR.

In response to a comment about the risks related to key supplies, the Head of Audit and Risk Management confirmed that this risk was anticipated to remain on the CRR as aspects of numerous supply chains continued to be impacted upon. This therefore warranted active monitoring and tracking through the CRR as well as other governance instruments such as the Commercial Board.

### **Decision**

To note the assurance provided by the risk management report and approve the Council's Risk Management Strategy.

### **AC/22/19 Internal Audit External Quality Assessment**

The Committee considered a report of The Head of Audit and Risk Management which discussed the requirement to undergo external assessment of internal audit effectiveness in line with Public Sector Internal Audit Standards on a five-year cycle. The Council's next external assessment was due for completion during 2022 and following consideration of a number of options, the proposal was put forward for the Authority's assessment to be undertaken on a Core Cities peer review basis.

The report set out the options that had been considered, including associated costs, the wider benefits of the proposed collaborative approach, as well as information about the scope and approach of the assessments. The Committee was invited to endorse the proposal.

Members welcomed the approach and endorsed the proposal

### **Decision**

To endorse the proposal that the next External Quality Assessment be undertaken on a peer review basis as part of the Core Cities group.

### **AC/22/20 Work Programme and Recommendations Monitor**

The Committee considered a report of the Governance and Scrutiny Support Unit which set out its future Work Programme for the forthcoming municipal year.

A member asked that information about the Council's Whistleblowing Policy be included in the scope of the next Annual Anti Fraud report. The Committee agreed to this.

**Decision**

To agree the Committee's Work programme for the forthcoming municipal year, subject to the amendment above.

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**Manchester City Council  
Report for Information**

**Report to:** Audit Committee – 26 July 2022  
**Subject:** Treasury Management Outturn Report 2021-22  
**Report of:** Deputy Chief Executive and City Treasurer

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**Summary**

To report the Treasury Management activities of the Council during the financial year 2021-22.

**Recommendation**

The Audit Committee is asked to note the contents of the report.

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**Wards Affected:**

Not Applicable

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**Contact Officers:**

Name: Carol Culley  
Position: Deputy Chief Executive and City Treasurer  
Telephone: 0161 234 3406  
E-mail: carol.culley@manchester.gov.uk

Name: Tom Wilkinson  
Position: Deputy City Treasurer  
Telephone: 0161 234 1445  
E-mail: tom.wilkinson@manchester.gov.uk

Name: Tim Seagrave  
Position: Commercial Finance Lead  
Telephone: 0161 234 3445  
E-mail: timothy.seagrave@manchester.gov.uk

Name: Amanda Samuriwo  
Position: Treasury Manager  
Telephone: 0161 600 8490  
E-mail: amanda.samuriwo@manchester.gov.uk

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

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Treasury Management Strategy Statement 2021/22, including Borrowing Limits and Annual Investment Strategy (Executive – 16<sup>th</sup> February 2022, Resource and Governance Scrutiny Committee – 28<sup>th</sup> February 2022, Council – 4<sup>th</sup> March 2022)

## 1 Introduction and Background

- 1.1 Treasury Management in Local Government is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities (the Code). The City Council has adopted the Code and complies with its requirements. A primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement which sets out Council, Committee and Chief Financial Officer Responsibilities, and delegation and reporting arrangements.
- 1.2 CIPFA amended the CIPFA Treasury Management in the Public Services Code of Practice in late 2011. The revised Code recommended local authorities include, as part of their Treasury Management Strategy Statement, the requirement to report to members at least twice a year on the activities of the Treasury Management function. This report, along with the Interim Treasury Management report received by the Audit Committee on the 23<sup>rd</sup> November 2021 therefore ensures that the Council meets the requirements of the Strategy, and therefore the Code.
- 1.3 Treasury Management in this context is defined as:  
*'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'*.
- 1.4 This outturn report covers:

Section 1: Introduction and Background  
 Section 2: Portfolio Position as at 31<sup>st</sup> March 2022  
 Section 3: Review of Economic Conditions 2021-22  
 Section 4: Treasury Borrowing in 2021-22  
 Section 5: Compliance with Prudential Indicators and Treasury Limits  
 Section 6: Investment Strategy for 2021-22  
 Section 7: Temporary Borrowing and Investment for 2021-22  
 Section 8: Current Market Conditions and Forward Fixing  
 Section 9: Conclusion

Appendix 1: Public Works Loans Board (PWLB) Interest Rates  
 Appendix 2: Treasury Management Prudential Indicators  
 Appendix 3: Review of Economic Conditions, provided by advisors  
 Appendix 4: Glossary of Terms

## 2 Portfolio Position as at 31<sup>st</sup> March 2022

- 2.1 As outlined in the approved Treasury Management Strategy Statement (TMSS) for 2021/22 it was anticipated that there would be a need to undertake some permanent borrowing in 2021/22 to fund the capital programme and to replace some of the internally borrowed funds.

- 2.2 The Council has faced a challenging market environment, with volatile interest rates amid global inflation concerns and the enduring fiscal impact of the pandemic.
- 2.3 During the year, the temporary borrowing taken last year matured and has been refinanced with long term debt from the Public Works Loan Board (PWLB). The Council's debt position at the beginning and the end of the financial year shown in the table below. The gross debt is significantly below both the Council's capital financing requirement, which is its underlying need to borrow, and the authorised limit (the maximum amount it is allowed to borrow) shown in appendix 2.

Loan Type	31 March 2021				31 March 2022			
			Principal	Avg.			Principal	Avg.
	GF	HRA		Rate	GF	HRA		Rate
	£m	£m	£m	%	£m	£m	£m	%
PWLB	150.0	0.0	150.0	2.45	400.0	0.0	400.0	2.00
Temporary Borrowing	177.2	0.0	177.2	0.67	10.7	0.0	10.7	0.34
Market Loans	336.8	61.9	398.7	4.48	334.2	61.4	395.7	4.47
Stock	0.9	0.0	0.9	4.00	0.9	0.0	0.9	4.00
Government Lending	23.5	0.0	23.5	0.00	19.4	0.0	19.4	0.00
<b>Gross Total</b>	<b>688.4</b>	<b>61.9</b>	<b>750.3</b>	<b>3.03</b>	<b>765.2</b>	<b>61.4</b>	<b>826.7</b>	<b>3.11</b>
Temporary Deposits	(27.4)	0.0	(27.4)	0.03	(122.7)	0.0	(122.7)	0.47
Internal Balances (GF/HRA)	58.4	(58.4)	0.00	0.00	49.5	(49.5)	0.0	0.00
<b>Net Total</b>	<b>719.4</b>	<b>3.5</b>	<b>722.9</b>	<b>-</b>	<b>692.0</b>	<b>11.9</b>	<b>703.9</b>	<b>-</b>

- 2.4 The temporary borrowing and deposit figures fluctuate daily to meet the ongoing cash flow requirements of the Council. The figures for these categories in the table above are therefore only a snapshot at a particular point in time.
- 2.5 Throughout the financial year 2021/22 a total of £319.4m of new borrowing was taken and a total of £243.0m matured. The net movement in temporary loans was a repayment of £166.5m, with long term PWLB borrowing of £250.0m taken. Market debt of £3.0m matured during the year and was repaid. Total Government borrowing dropped from £23.5m to £19.4m due to the planned repayment of £4.1m SALIX loans.
- 2.6 Total Gross Debt has therefore increased by £76.4m throughout the financial year 2021/22.

### 3 Review of Economic Conditions 2021-22

- 3.1 The financial year provided challenging market conditions, as the economy transitioned away from one of historic low interest rates towards a more active



monetary policy to tackle inflation pressures. The Bank of England raised the base rate from 0.1% to 0.25% in December, before increasing by 25 basis points again in both February and March to reach 0.75% by the end of the financial year. Subsequently the bank has raised the rate twice more, with base rate at 1.25% by June 2022, a level not seen since early February 2009 at the start of the global financial crisis.

3.2 Appendix 3 provides a more detailed review of the economic situation.

#### 4 Treasury Borrowing in 2021-22

##### PWLB

4.1 PWLB interest rates during the year are illustrated in the table below, which sets out the low points and high points during the year for key maturity periods. This is also illustrated in the graph at Appendix 1. All maturity periods saw an increase in rates towards the end of the financial year.

<b>PWLB Standard Borrowing Rates 2021-22 for 1 to 50 years</b>					
	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>Low</b>	0.78%	1.05%	1.39%	1.67%	1.25%
<b>Date</b>	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
<b>High</b>	2.03%	2.37%	2.52%	2.75%	2.49%
<b>Date</b>	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
<b>Average</b>	1.13%	1.45%	1.78%	2.10%	1.85%

4.2 During the year the Council borrowed £250m from the PWLB, as detailed in the table below, at an average rate of c. 1.73%. This was to refinance the temporary borrowing taken last year, and ultimately is to fund the Council's capital programme.

Maturity Date	Value (£m)	Interest Rate (%)
17/06/2055	15	2.05
17/06/2062	25	1.99
17/06/2063	25	1.99
17/06/2064	20	1.98

17/06/2068	20	1.94
08/12/2068	25	1.38
17/06/2069	15	1.93
08/12/2069	25	1.37
17/06/2070	15	1.92
08/12/2070	25	1.36
17/06/2071	15	1.91
08/12/2071	25	1.34
Total	250	1.73

4.3 A number of loans were taken out, with maturities spread over a number of years to allow the repayments to be manageable, and closer aligned to the likely MRP charges that the Council is expected to make in the years that the loans are due to mature.

4.4 For any additional borrowing required further market assessments will be undertaken and the risks and benefits of any approach will be reviewed before any decision is made.

#### **Temporary Borrowing**

4.5 As noted above, the temporary borrowing previously agreed became due for repayment during the financial year, with a c. £166.5m net repayment. This was predominantly refinanced through the PWLB debt taken during the year.

#### **Salix Borrowing**

4.6 Salix Finance Ltd provides interest-free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The supported scheme in relation to LED lighting Council projects will be repaid by 1st April 2023.

4.7 During the year, the Council made scheduled repayments of £4.1m, bringing the total value of Salix debt to £10.9m on 31<sup>st</sup> March 2022.

4.8 The borrowing strategy will remain under constant review to support achieving value for money for the Council whilst balancing the treasury risks that any approach will create.

## 5 Compliance with Prudential Indicators and Treasury Limits

- 5.1 The Council operated within the updated prudential indicators, and performance against these is shown in Appendix 2.
- 5.2 The Council also sets an operational limit on the cleared balance that is left within the Council's current accounts. The limit is aimed at minimising the cash held in these accounts which attracts no interest and thereby maximises the investment return for the authority. The limit is set at £400k and this was met during the financial year with the exception of the breaches described below.
- 5.3 Where the limit is breached it means that the Council either incurred interest costs due to being in an overdraft position or lost potential investment income due to excess cash not being invested. It is important to note that any such breach will be rectified the following working day, and therefore the financial impact is minimised.
- 5.4 During the period 1<sup>st</sup> April to 31<sup>th</sup> March 2022 there were fifteen breaches of the daily £0-400k limit on the Barclays current account.
- i. On eight occasions, Treasury Management purposely kept the current account in surplus following a payment made in error by the bank for the amount of £3.3m, the limit was breached for 8 days while the bank investigated.
  - ii. On the seven occasions, the limit was breached due to various late afternoon receipts which the Treasury Management team had not been made aware of. Where possible, officers are asked to inform the team of any expected receipts or payments over £50k in order to efficiently manage cash.
- 5.5 Each breach was notified to the Deputy Chief Executive and City Treasurer and action taken on the following working day to bring balances back within approved limits. No additional costs arose as a result, other than the opportunity cost incurred of not investing the surplus cash, which in the current interest market is minimal.

## 6 Investment Strategy for 2021-22

- 6.1 The Treasury Management Strategy Statement (TMSS) for 2021-22 was approved by Executive on 16<sup>th</sup> February 2022. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as:
- (a) the security of capital; and
  - (b) the liquidity of investments.
- 6.2 The Strategy details the investment limits the Council has for counterparties, based on an assessment of their creditworthiness, to a maximum of £20m for any single organisation other than the UK Government or the Greater

Manchester Combined Authority. It also provides information on the types of investment instruments that the Council will use, including bank deposits, deposits with other local authorities and the UK Government, and money market funds (MMFs).

- 6.3 The Council continues to operate a total of five MMFs with an upper limit of £15.0m per fund. The Council also holds ongoing contingency call accounts with two major banks to help maintain liquidity.
- 6.4 The current strategy means that a significant proportion of the Council's investments are with the chosen five MMFs, the Debt Management Office (DMO), and other Local Authorities. This highlights the relatively low rate of credit risk that the Council takes when investing.
- 6.5 It should be noted that, whilst seeking to broaden the investment base, officers will continue to seek high quality investments to limit the level of risk taken by the Council. It is not expected that the measures considered above will have a significant impact on the rates of return the Council currently achieves.
- 6.6 During the financial year the Council's temporary cash balances have been managed by the Deputy Chief Executive and City Treasurer in-house and invested with those institutions listed in the Council's Approved Lending List. Officers can confirm these institutions meet the security criteria set out in the Annual Investment Strategy agreed at Executive in February and Council in March.

## **7 Temporary Borrowing and Investment for 2021-22**

- 7.1 Compared to the previous twelve months, the Council's cash flows have been far more predictable compared to the early periods of the pandemic. Liquidity has remained a key focus for the treasury management function, alongside the refinancing of the temporary borrowing.
- 7.2 During the first half of the financial year investment rates remained at near their historic lows. However, since December inflation concerns have seen the Bank of England raise the bank rate from 0.1% to 0.75% by year end, and now 1.25%, which has seen investment returns rise. For the Council, the average level of funds available for investment purposes in 2021/22 was £64.9m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, the receipt of grants, payments of COVID-19 related grants, progress on the capital programme, and working capital.
- 7.3 As noted, a significant amount of short term borrowing was repaid during the year and refinanced with long term debt. The average level of temporary borrowing in this period was £40.1m, but was £10.7m by year end.
- 7.4 Detailed in the table below is the temporary investment and borrowing undertaken by the Council. Historically this has been compared to the average equivalent London Inter-Bank investment or borrowing rate (LIBOR/LIBID), but

following changes implemented to the UK financial markets these rates are no longer calculated. The benchmark rate is now the Sterling Overnight Index Average (SONIA), being the overnight rate of interest banks pay to borrow sterling overnight, unsecured, from other financial institutions.

- 7.5 This change means that the benchmark rate is now based on observable data, whereas LIBOR/ID was based on information provided by major banks. The impact on SONIA of changes in the Bank of England bank rate is far more immediate, particularly when compared to the investment instruments that the Council uses where there is a time lag between bank rate changing and the rate offered for the instrument reflecting that change. As interest rates have risen during the final part of the 21/22 financial year it has therefore taken some time for the Council's investments to rise to similar levels.
- 7.6 As illustrated, the Council under performed the benchmark by 4 basis points on investments. The treasury team will continue to search for stronger inter-Local Authority market rates and Money Market Funds which could improve return without compromising security of the funds.
- 7.7 The temporary borrowing portfolio consisted of loans with various investment tenors ranging from 14 day notice terms to fixed two-year maturities. The average cost was therefore higher by 41 basis points when compared to the overnight benchmark.

*		Average temporary investment /borrowing	Net Return/Cost	Benchmark Return / Cost *
	Temporary Investments	£65.0m	0.10%	0.14%
	Temporary Borrowing	£40.2m	0.55%	

*Average SONIA 1<sup>st</sup> April 21 to 31<sup>st</sup> March 22*

- 7.8 None of the institutions in which investments were made, such as banks, local authorities and MMFs, showed any difficulty in repaying investments and interest during the year. The list of institutions in which the Council invests is kept under continuous review.

## **8 Current Market Conditions and Forward Fixing**

- 8.1 As noted above, the Bank of England base rate has continued to rise in the early part of the 2022/23 financial year which, along with inflation concerns across the globe, has caused interest rates to rise.
- 8.2 This means that any debt taken by the Council in this market environment is likely to be at rates significantly higher than those shown above for the debt taken in 2021/22.
- 8.3 There is significant volatility in interest rates, and the timing of further borrowing will be important to seek to minimise interest costs for the duration of those

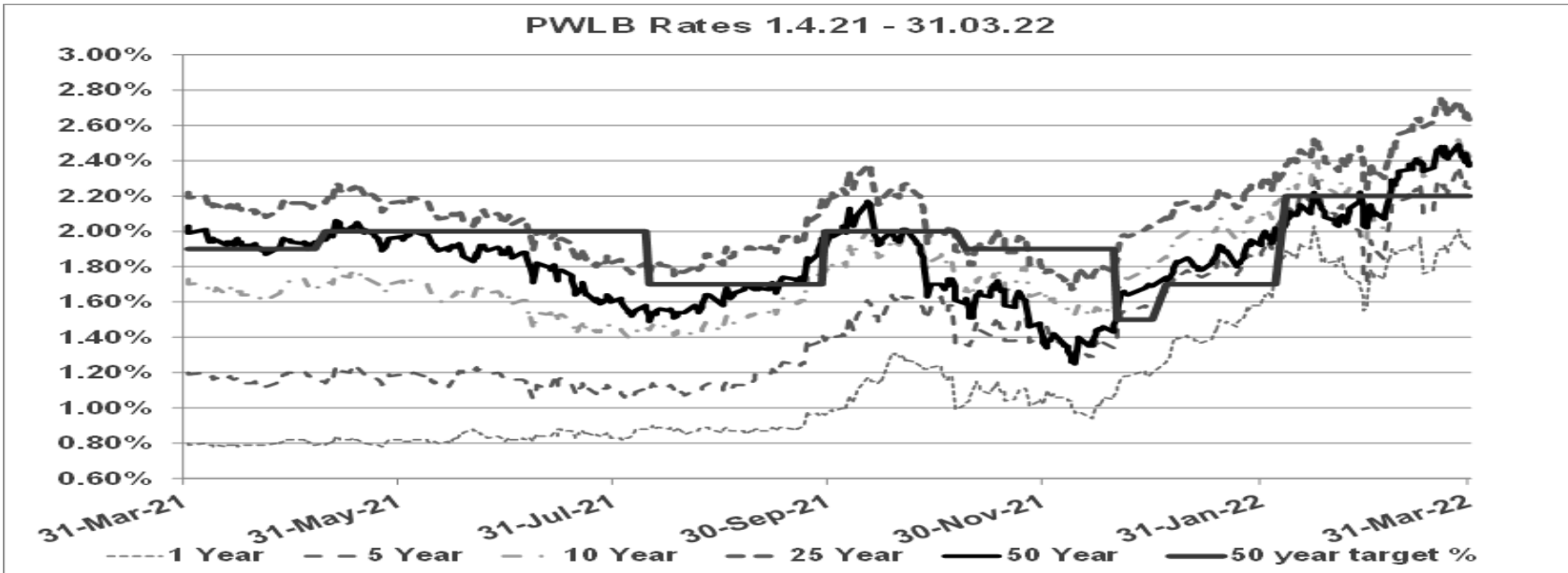
loans. Officers keep debt markets under constant review, working with the Council's treasury advisors and financial market brokers to examine potential debt options. One of the options currently being offered by major financial institutions is the opportunity to "forward fix" debt, by agreeing to take debt at a point in the future at an interest rate fixed now. This approach gives interest rate certainty, but avoids the cost of carry associated with taking debt before it is needed.

- 8.4 In the Treasury Management Strategy for 2022/23 the potential for forward fixing was noted, but as rate forecasts at the time of writing were relatively benign it was not expected that forward fixing would provide value for money.
- 8.5 The changes in rates noted above, and the ongoing uncertainty across global financial markets, means that this view has changed, and forward fixing may now provide an opportunity to reduce future interest rate risk and give cost certainty.
- 8.6 Officers will continue to review debt market options, with a specific focus on forward fixing opportunities, and will report to members through the interim and outturn treasury management reports on any further borrowing taken.

## **9 Conclusion**

- 9.1 Financial markets during the 2021/22 financial year saw significant changes, as inflationary pressures across the globe saw central banks raise rates for the first-time post-pandemic. The Council was able to take advantage of the low interest rates available on debt during the year to secure long term financing and has continued to ensure security and liquidity in its investments.
- 9.2 The current borrowing position reflects the strong balance sheet of the Council. It enables net interest costs to be minimised and reduces credit risk by making temporary use of internal borrowing (reserves, provisions, positive cash flows, etc). The Council's policy remains to keep cash as low as possible and not to borrow in advance of need for capital purposes.
- 9.3 It is important to note that this strong balance sheet position is not without risk, and with interest rates rising the timing and structure of future debt financing will be important in sustaining this position.
- 9.4 Proactive treasury management during the year has enabled the Council to achieve an average net return on investments of 0.10%, which although below the average SONIA rate for the year is higher than the rate offered by the DMO, which is the default option if there are no other investment opportunities based on the credit criteria set.

APPENDIX 1  
PWLB RATES APRIL TO MARCH 2022



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## APPENDIX 2

## Treasury Management Prudential Indicators: 2021-22

	Original <i>£m</i>	Minimum In Year to 31 Mar 22 <i>£m</i>	Maximum In Year to 31 Mar 22 <i>£m</i>
<b>Operational Boundary for External Debt:</b>			
Borrowing	1,540.3	644.8	827.9
Other Long Term Liabilities	190.0	145.1	145.1
<b>Authorised Limit for External Debt:</b>			
Borrowing	1,901.6	644.8	827.9
Other Long Term Liabilities	190.0	145.1	145.1
	<b>Actual as at 31<sup>st</sup> March 2022</b>		
<b>Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services</b>	Yes		Yes
<b>Upper Limit for Principal Sums Invested for over 364 days</b>	£0		£0

<b>Maturity structure of Fixed Rate Borrowing</b>	<b>Lower Limit 2021-22 Original</b>	<b>Upper Limit 2021-22 Original</b>	<b>Actual as at 31<sup>st</sup> March 2022</b>
under 12 months	0%	80%	15.2%
12 months and within 24 months	0%	80%	9.0%
24 months and within 5 years	0%	70%	17.6%
5 years and within 10 years	0%	70%	0%
10 years and above	20%	90%	58.2%

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## APPENDIX 3

## REVIEW OF ECONOMIC CONDITIONS FOR 2021-22 AND FUTURE OUTLOOK

This section has been prepared by the Council's Treasury Advisors, Link Asset Services, for the end of the 21/22 financial year and includes their forecast for future interest rates after the PWLB policy change referenced in the report.

## 1 ECONOMIC PERFORMANCE 2021-22

## 1.1 Link Group Interest Rate Forecast

Bank	Jun-	Sep-	Dec-	Mar-	Jun-	Sep-	Dec-	Mar-	Jun-	Sep-	Dec-	Mar-	Jun-
10.5.2	1.25	1.50	1.75	2.00	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75
7.2.22	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
chang	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.50

- We have forecast that the MPC will reluctantly increase Bank Rate at a much faster pace through 2022 to try and keep inflation in check, with further rises of 0.25% in June, and then in each of the three subsequent quarters to peak at 2% by the close of the calendar year. However, those increases in Bank Rate are likely to add to the considerable headwinds impacting the UK economy and, therefore, tentatively we have priced in a small reduction in Bank Rate in 2024. As 2022 proceeds we will be in a better position to judge the overall strength of those economic headwinds and will revise our forecast as appropriate.
- Gilt yields and, therefore, PWLB rates, have been highly volatile since the start of Q4 2021 and that trend has continued throughout the first four months of 2022; indeed, they have risen sharply as concerns focusing on inflation and the secondary round effects, as measured by wage inflation, have taken centre stage.
- At the MPC's 5<sup>th</sup> May meeting, the 6-3 vote in favour of a 0.25% Bank Rate increase to 1% was followed by a press conference in which it became clear that the nine members of the Committee had varying concerns and voted accordingly. Some emphasised the slowing economy; others the degree to which inflation could rapidly become uncontrollable unless monetary policy was tightened very promptly; and others saw labour shortages as having to be dampened to prevent spiralling wage demands.
- The fact that the economy is forecast to flatline in Q2 and Q3 2022 is an added complication for policy makers, and the forecast -0.9% contraction in the economy in Q4 2022 followed by a further -0.2% contraction in Q2 2023

only adds to the growing possibility that the UK economy may fall into recession at some point during the next year.

- International factors cannot be ignored. The war in Ukraine has added to already present inflationary pressures, as economies bounced back from the effects of Covid-induced lockdowns. Pricing pressure pertaining to oil, gas, electricity, wheat and fertilisers are only some of the better-known aspects.
- Moreover, reductions in the number of people actively seeking employment have also put upward pressure on wages and those costs are likely to be passed on to consumers. Regarding the UK, Brexit factors will also have had a negative impact on the number of workers with appropriate skill-sets available to fill the current record 1.3m job vacancies.
- PWLB rates have risen sharply since the turn of the year, in line with similar movements in bond markets in developed economies.
- Financial markets are currently pricing in increases to Bank Rate to c2.5% by April 2023. So, although we have increased our Bank Rate forecast significantly, we are still positioned some 50bps lower than market expectations. However, from a PWLB perspective, we believe that the market has already priced in most of the increases that pertain to the high inflation outlook (peaking at 10.2% on the CPI measure in Q4 2022 according to the Bank).
- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

## **1.2 A summary overview of the future path of bank rate**

- Our central forecast for interest rates was previously updated on 7th February and reflected a view that the MPC will be keen to further demonstrate its anti-inflation credentials by delivering 0.25% increases in Bank Rate in March and May, both of which were implemented. Now we expect further 0.25% increases in June, August, November and February, with the latter three decisions coinciding with updated Bank of England Quarterly Monetary Policy reports.
- The CPI measure of inflation is now forecast to rise to above 10% in Q4 2022 and the MPC will be keen to stifle the prospect of average earnings data (5.4% y/y currently including bonuses) providing further upside risk to inflationary factors that are primarily being driven by supply-side shortages. Conversely, the Bank indicated at its 5<sup>th</sup> May meeting that markets may have over-estimated how far monetary policy will need to be tightened, as the May

Quarterly Monetary Policy report indicated that inflation would be considerably below the 2% target by Q1 2025 if rates were tightened to 2.5%.

- Now that Bank Rate has reached 1%, the MPC has indicated (no earlier than August) that it will also consider the extent to which it implements Quantitative Tightening (QT), primarily the selling of its gilt holdings, although they are likely to take any such decision cautiously as they are already not refinancing maturing debt.
- Notwithstanding the MPC's clear desire to increase Bank Rate throughout the first half of 2022, negative real earnings, a 54% hike in the Ofgem energy price cap from April, at the same time as employees (and employers) incurred a 1.25% Health & Social Care Levy, growing commodity and food inflation plus council tax rises - all these factors will hit households' finances hard. However, lower income families will be hit disproportionately hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Given the above outlook, it poses a question as to whether the MPC may shift into protecting economic growth if it flatlines in Q2 and Q3 2022, let alone contracts by -0.9% in Q4. Accordingly, we remain tentative about whether the MPC will increase Bank Rate as far as the market is currently pricing in (2.5% in April 2023).
- In the past months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies, but the on-going conflict between Russia and Ukraine, including the manner in which the West and NATO respond through sanctions and/or military intervention.
- Currently, oil, gas, wheat and other mainstream commodities have risen significantly in price and central banks will have to balance whether they prioritise economic growth or try to counter supplyside shock induced inflation.
- On the positive side, consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income before these increases hit and have few financial reserves.

### **1.3 PWLB rates**

- The yield curve has flattened out considerably and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 2.3% to 3%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook.
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields now that Bank Rate has hit 1%. Nothing will be decided before August, however, but the Bank is likely to act cautiously as it has already started on not refinancing maturing debt. A pure roll-off of the peak £875bn gilt portfolio by not refinancing bonds as they mature, would see

the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding.

- Increases in US treasury yields over the next few months could add further upside pressure on gilt yields.

#### 1.4 The balance of risks to the UK economy: -

The overall balance of risks to economic growth in the UK is now to the downside.

##### Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- 
- **Mutations** of the Covid virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity  
(accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- **Bank of England** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Government** acts too quickly to increase taxes and/or cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

##### Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- Longer term US treasury yields continue to rise strongly and pull gilt yields up higher than forecast.

**APPENDIX 4****Glossary of Terms**

**Authorised Limit** - This Prudential Indicator represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

**Bank Rate** – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

**Constant Net Asset Value (CNAV)** – refers to Funds which use amortised cost accounting to value all of their assets. The aim is to maintain a Net Asset Value (NAV), or value of a share of the Fund at £1.

**Counterparty** – one of the opposing parties involved in a borrowing or investment transaction

**Credit Rating** – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

**Discount** – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

**Fixed Rate Funding** - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

**Gilts** - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

**High/Low Coupon** – High/Low interest rate

**LIBID (London Interbank Bid Rate)** – This is an average rate, calculated from the rates at which individual major banks in London are willing to borrow from other banks for a particular time period. For example, 6 month LIBID is the average rate at which banks are willing to pay to borrow for 6 months.

**LIBOR (London Interbank Offer Rate)** – This is an average rate, calculated from the rates which major banks in London estimate they would be charged if they borrowed from other banks for a particular time period. For example, 6 month LIBOR is the average rate which banks believe they will be charged for borrowing for 6 months.

**Liquidity** – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

**LOBO (Lender Option Borrower Option)** – This is a type of loan where, at various periods known as call dates, the lender has the option to alter the interest rate on the loan. Should the lender exercise this option, the borrower has a corresponding option to repay the loan in full without penalty.

**Market** - The private sector institutions - Banks, Building Societies etc.

**Maturity Profile/Structure** - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

**Monetary Policy Committee** – the independent body that determines Bank Rate.

**Operational Boundary** – This Prudential Indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

**Premium** – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

**Prudential Code** - The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

**PWLB** - Public Works Loan Board. Part of the Government’s Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

**SONIA (Sterling Overnight Index Average)** - This is an average rate, calculated from the rates which banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is administered by the Bank of England and published daily.

**Specified Investments** - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

**Non-specified investments** - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside the Council’s minimum credit rating criteria.

**Variable Rate Funding** - The rate of interest either continually moves reflecting interest rates of the day or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

**Volatility** - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within the coming year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.



**Yield Curve** - A graph of the relationship of interest rates to the length of the loan.  
A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

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**Manchester City Council  
Report for Resolution**

**Report to:** Audit Committee – 26 July 2022

**Subject:** Internal Audit Assurance Report (Q1)

**Report of:** Head of Internal Audit and Risk Management

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**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 Opinion and an Annual Assurance Report.

This report provides an update of progress on the agreed audit plan 2022/23; additional work assigned to the audit service and copies of the audit opinions issued in the period April 2022 to June 2023. A progress update on the period prior to this was included in the Annual Assurance Report presented to Committee in April 2022.

**Recommendations**

Audit Committee is requested to consider and comment on the Internal Audit Assurance Progress Report.

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**Wards Affected:** All

<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
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None
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<b>Equality, Diversity, and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
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None
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<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/Contribution to the Strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	An effective internal audit service is an integral part of the Council's governance arrangements. It helps to maintain and develop good governance and risk management and provides independent assurance over the effectiveness of the Council's systems of control. This contributes to being a well-run Council and indirectly to the achievement of organisational objectives and the OurManchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

**Financial Consequences – Revenue = None**

**Financial Consequences – Capital = None**

**Contact Officers:**

Name: Carol Culley  
 Position: Deputy Chief Executive and City Treasurer  
 Position: 0161 234 3406  
 E-mail: carol.culley@manchester.gov.uk

Name: Tom Powell  
 Position: Head of Audit and Risk Management  
 Telephone: 0161 234 5273  
 E-mail tom.powell@manchester.gov.uk

Name: Richard Thomas  
 Position: Deputy Head of Audit and Risk Management  
 Position: 0161 455 1019  
 E-mail richard.thomas@manchester.gov.uk

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

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- Internal Audit progress reports to Audit Committee 2021-2022
- Internal Audit Annual Opinion 2021-2022 – April 2022

## 1 Introduction

- 1.1 The work of internal audit is a key part of the Council's overall assurance framework which is described in the Annual Governance Statement and in the Head of Audit and Risk Management's Annual Opinion. This report provides an update on work in the quarter ended June 2022.
- 1.2. Most of the planned work remaining from 2021/22 is nearing completion and focus this quarter has been to schedule the work that was deferred into 2022/23. We continue to assist on the provision of post payment assurances to the Department for Business, Energy, and Industrial Strategy (BEIS) across a range of Covid related grants. These demands are variable and hard to predict in terms of resource allocation but must be treated as a priority. BEIS related work is likely to continue through to September 2022.
- 1.3 Audits from the 2022/23 plan have commenced and we are now undertaking more system-based compliance reviews, as opposed to providing position statements and briefing notes. This will start to generate more formal recommendations.
- 1.4 Work continues to be prioritised in areas of highest risk and where changes have been made to policies, strategies, and systems. These factors alongside pressure across the organisation to recover from covid, manage resource reductions and capacity to deliver on key priorities; and in the delivery of substantial organisational change are all reflected in the opinions and findings of audit work.
- 1.5 Appended to this report are:
- Appendix One: Delivery status of the annual audit plan 2022/23
  - Appendix Two: Executive summaries April 2022 to June 2022
  - Appendix Three: Basis of Audit Assessments (Opinion/Priority/Impact).

## 2 Audit Programme Delivery

- 2.1 The following is a summary of progress against the 2022/23 plan, including the work carried forward from 2021/22.

<b>Audit Status</b>	<b>Audit Plan Status</b>	<b>Delivery %</b>
Final Report / Assignment Complete	13	16%
Draft Report	5	6%
Fieldwork Completed	2	2%
Fieldwork Started	6	7%
Terms of Reference Issued	3	4%

<b>Audit Status</b>	<b>Audit Plan Status</b>	<b>Delivery %</b>
Planning	9	11%
Not Started	44	54%
<b>TOTAL</b>	<b>82</b>	<b>100%</b>

- 2.2 The team is making good progress across each Directorate on the work carried forward from 2021 and against assignments planned for delivery in the current year. We continue active engagement with client Directors and their senior management teams to ensure our work remains risk focused, relevant, and that audit reviews are adequately supported so they can be conducted efficiently. There is increased demand for reactive counter fraud work. Working closely with auditors, these are being assessed by our fraud team and will be triaged through our normal processes, to understand the risk exposure. Detail of the reactive and proactive caseload and outputs will be provided to this Committee in September.
- 2.3 We have also seen increased demand for audit support from non-Local Authority maintained schools, under bought in arrangements; the schools are charged on a fixed day rate for this work. This is to address specific issues where potential fraud or malpractice is suspected, and the school is unable to provision the same standard of audit services at a reasonable open market price. The additional income generated will be reinvested in service improvement and a business case has been drafted to increase capacity in the team specifically for undertaking school assurance work.
- 2.4 Salford City Council ICT audit team are progressing work across our ICT assurance portfolio, and we are currently agreeing responses to recommendations with the client on two reviews that are drafted. We continue to liaise with the Director of ICT and his management team to prioritise our IT audit work for the coming months.

### **3 Resourcing and Plan**

- 3.1 The service review for internal audit is now part of a wider review being undertaken across the audit and risk management division and this has extended the time being taken to complete. The review involves proposed changes across internal audit, health and safety, insurance and claims investigation, risk management and business continuity and all these elements have been scoped.
- 3.2 As previously reported to this Committee, all the required work to support the new structure is complete. Human resources (HR&OD) have been provided with the information they require to complete the job evaluation reviews for 15 audit posts, and we are awaiting their confirmation before we can confirm the timings for consultation with staff. We are on track to complete the consultation in August and finalise structure in September. Separately the

Deputy Chief Executive and City Treasurer has approved additional resource for HR&OD to resolve the current capacity pressures.

- 3.3 For internal audit, the current resource is 12 staff in post. To support capacity, the placement of an officer within the team has been extended through to the end of October and it is hoped they will be successful in securing a permanent role. Our other secondees return from maternity leave in August 2022 and is keen to continue working within the unit. An option is also being progressed to secure funding for a fixed term post to assist with the high volume of investigations and other work linked to Covid grants. It is the assessment of the Head of Audit and Risk Management that this will provide sufficient resource for the delivery of an effective risk-based audit plan for 2022/23.

#### **4 Children's Services and Education**

##### **School Financial Value Standard**

- 4.1 We completed the submission of the 2021/2022 Schools Financial Value Standard (SFVS) Chief Financial Officer (CFO) Assurance Statement during the quarter. We confirmed that we had received SFVS submission from all 103 maintained Manchester Schools, although seven of those were considered incomplete. Those that were incomplete were either not signed by the Chair of Governors or did not have answers for every question. Completion of the SFVS is mandatory and we are actively pursuing these schools for the additional information that is needed.
- 4.2 Where Governing Bodies identified weaknesses, we were satisfied that they had also identified appropriate remedial actions. As part of our school's Financial Health Check reviews, we will review the schools' SFVS returns and follow up areas of partial or non-compliance on a risk priority basis.
- 4.3 In the SFVS return this year, schools had to declare all related party transactions and we were required to review those over £20,000. There were eight such transactions where we sought further evidence to demonstrate appropriate financial controls were in place. For seven of these we were satisfied with the controls described, the evidence provided, and mitigating circumstances regards probity.
- 4.4 One transaction did not pass this probity test; from the Church of England School of the Resurrection Primary School. We met with the Head Teacher and Chair of Resources and raised our concerns over these arrangements. We agreed several remedial actions and have confirmed these in writing with the school.

##### **Other work**

- 4.5 We are in the process of drafting a report following completion of fieldwork for our audit of Children's Supervisions and this report should be finalised in early July.



- 4.6 Audit are planning a review of Foster Care Payments and drafting the terms of reference for this in liaison with our clients. We will undertake fieldwork throughout July and plan to issue a draft report in early August.
- 4.7 We have developed the terms of reference for an Elective Home Education audit which we plan to start the fieldwork for in September when the schools return from their summer break.
- 4.8 We will meet with Children Services Senior Management Team in the next quarter to discuss planned audit work for the remainder of the year. At the time of developing the audit plan for 2022/2023, Children's Services were in the middle of an Ofsted inspection, we therefore included a piece of work on the plan entitled Post Ofsted Assurance, with a view to agreeing the scope of the work once the outcome of the inspection was known.
- 4.9 The Ofsted opinion has now been issued with a good rating overall, with inspectors finding the services for children in the city had significantly improved since the last inspection. The inspectors praised the overall effectiveness of services and the impact of leaders on social work practice and judged the experiences and progress of children in care and care leavers to be good. We therefore plan to agree the scope of a post inspection, based on Ofsted findings.

### **Schools**

- 4.10 We issued a final report for our financial health check audit of Devine Mercy Primary School during the quarter. We were only able to provide a limited assurance opinion overall over the adequacy, application and effectiveness of financial control systems being operated. This was largely due to the need for improvements in controls over the purchasing arrangements, including the use of quotations and tenders for higher value purchases and regarding the need to improve controls when using their debit card.
- 4.11 We have finished the fieldwork and are in the process of drafting the audit report for our thematic audit of Safer Recruitment in schools. The draft report for this audit will be issued later this month.
- 4.12 We have also completed a follow up exercise of all schools with limited assurance opinions issued since 2018 during the quarter. This involved the follow up of recommendations made at 10 schools. We plan to issue formal follow up reports to each school over the next few weeks. A separate paper for Committee consideration has been provided for the July meeting, that summarises the position.
- 4.13 Demand for 'paid for' audits from non-maintained Local Authority schools has increased dramatically, for various underlying reasons. Most have identified specific issues or concerns and sought advice and guidance from the audit team. We have completed or are in the process of completing five audits across three such schools (under a flat rate fee agreement). The results of this work will be reported directly to senior management and the school

Governing Bodies, and where necessary we recommend that the school feedback outcomes to their Senior School Quality Assurance Officers.

## **5 Adult Services**

### **Direct Payments**

- 5.1 We have issued two final reports since April 2022 for Adults Services. We had planned in the 2021/22 audit plan to complete a review of Adults Direct Payments in quarter four, however, in May 2021 a review was commissioned from the Greater Manchester Health and Social Care Partnership (GMHSCP), of the Council's approach to Direct Payments and Individual Service Fund (ISF) arrangements. This work was undertaken in June / July 2021. We therefore we agreed with management a full audit as planned would be a duplication of this work and agreed to incorporate this into our work and reporting of assurances.
- 5.2 The work concluded that Manchester was underutilising direct payments as an offer to provide choice and personalisation of support to citizens and identified several areas for development which resulted in 19 recommendations for improvement. It was agreed that the improvement project for direct payments would be integrated into the Better Outcomes Better Lives (BOBL) programme.
- 5.3 We are reasonably assured that the service improvement plan for direct payments developed from this externally commissioned work is comprehensive and clear. We have included further work in this area in the 2022/23 Audit Plan, once the recommendations made have been addressed; to provide independent assurance over the direct payments scheme, following the changes.

### **Multi Agency Safeguarding Hub (MASH)**

- 5.4 We issued a final assurance report in relation to the Adults Multi Agency Safeguarding Hub (MASH). We had planned to complete a full audit of the Adults MASH in quarter four of the 2021/22 audit year, however at the planning meeting for this work management outlined two similar pieces of work underway; an external review of Manchester's Multi Agency Safeguarding Partnership in December 2021 (including both Adult's and Children's Services) and a baseline review of Manchester safeguarding arrangements completed by consultants Impower as part of the process to include a safeguarding transformation programme for Adults in the Better Outcomes Better Lives framework.
- 5.5 We agreed that completing the original audit as planned would be a duplication of effort, as we are able to take assurance from the work already completed around multi agency safeguarding arrangements. Clear action has been taken to review safeguarding and identify areas for development with plans being in place to deliver improvements through the Better Outcomes,

Better Lives improvement framework. We will consider future audit work once revised arrangements have been developed and implemented.

### **Oversight and Supervisions**

- 5.6 We have also issued a draft report during the quarter covering our audit of Adults Management Oversight and Supervisions. At this stage we can provide a reasonable audit opinion over arrangements in place to ensure sufficient and appropriate supervision and management oversight arrangements in Adults Services.
- 5.7 We concluded that there has been significant progress made in developing and embedding supervision arrangements in Adults since the last time we reviewed arrangements in 2018. We did however identify several areas where we consider arrangements could be further strengthened specifically in relation to ensuring the timeliness of supervisions and ensuring current work to develop an accurate and up to date staff list for the central tracker record is completed to enable central monitoring and challenge of the timeliness of supervisions.
- 5.8 In addition, we recommended the need to address the current inconsistencies with how casework discussions are documented and evidenced in supervisions across the business.

### **Interim Quality Assurance Framework**

- 5.9 A short piece of work was planned to commence at the end of the 2021/22 audit year, to review the Interim Quality Assurance (QA) arrangements in Adults Services, which had been introduced in the absence of a full Adults QA framework. Whilst planning this work management confirmed that work had progressed considerably on the new full QA framework to the point where it had been approved by the Director and was due to go live in July 2022. A QA Board is also being developed to oversee the new framework.
- 5.10 As a result of the progress in developing the new QA framework, and work to make this operational, we decided it was more practical to delay the audit and allow time for these arrangements to fully embed. We will provide assurance over the new QA arrangements in quarter two.

### **Adults Payments**

- 5.11 We will be progressing further Adults Services work during quarter two with the first area where we will start fieldwork being a review of Adults Payments. We are in the process of agreeing terms of reference for this piece of work and will start the fieldwork later this month.

### **Adaptations Delivery Model**

- 5.12 We have a planning meeting booked in with the business in early July with a view to developing the terms of reference for our review of the Adaptations Delivery Model and plan to start fieldwork in August 2022.

## **6 Corporate Core and Information Governance**

### **Corporate Core**

- 6.1 The last of the COVID-19 business grants schemes made their final payments to businesses at the end of March 2022. Our work supporting the design of these schemes, and carrying out pre-payment checks on proposed grant awards, is therefore complete. However, we are required to provide ongoing submissions and assurance to the Department for Business, Energy, and Industrial Strategy (BEIS) in line with their Post Payment Assurance Scheme. We have completed four required returns as part of this scheme to date. BEIS have confirmed that more work in this area will be required - details of this will be released in the autumn.
- 6.2 A short piece of advice work in relation to the 2020/21 accounts has been completed. Several suggestions for improvement in working practices were identified through the External Auditor's review of the accounts, we sought to confirm the improvements made and sought assurance on further planned actions in respect of capital asset valuation.
- 6.3 We completed compliance work on the grant terms and conditions for Phase 1 of the Public Sector Decarbonisation Scheme. The Council received £19.47million from this scheme to deliver decarbonisation of energy in relation to 15 public buildings across the city. Certification was required to be completed before the conclusion of work on site, consequently we have agreed with managers to carry out a further short review of spend in this area once work is complete.
- 6.4 The final required grant certification in respect of spend on the European Regional Development Fund (ERDF) - Area Based Collaborative Entrepreneurship in Cities (ABCitiEs) was finalised. This project is now complete, with total project spend of €65,745.
- 6.5 Audit have provided ongoing advice and support in respect of the local design and implementation of the Council Tax Energy Rebate schemes. The core scheme has successfully distributed 87.5% of allocated funding, and the discretionary scheme 43.0% of funding (as at end June 2022). The government-specified end dates for the schemes are 30 September and 30 November respectively.
- 6.6 We have commissioned a further profit recovery exercise, to identify missed profit (from duplicate payments, supplier credit notes, and classification of VAT) to ensure this is returned to the Council. The start date for the work will be agreed in July.

- 6.7 We have begun field work on a grant certification for the Contain Outbreak Management Fund. This fund provided £25.8 million of funding to the Council between 2020 and 2022. As part of this work, we will review the plans to allocate and spend the remaining funding in 2022/23.

### **ICT and Information Governance**

- 6.8 We have finalised an audit reviewing the Council's arrangements for the provision of privacy information to data subjects. We were able to give reasonable assurance in this area. We have made recommendations in relation to the tailoring of Privacy Notices for specific user groups, and the efficient provision of information at the point of data collection.
- 6.9 A draft report in relation to ICT Hardware Asset Management has been issued. This report is with client managers to provide responses to the recommendations made. We are also sighted on progress in this area more widely through regular attendance at the End User Device project board.
- 6.10 The Vulnerability Management audit is also in draft and being discussed with the client to finalise. This will be listed as a Part B paper in our next quarterly update to Committee.
- 6.11 The Council maintains a Public Services Network (PSN) connection, which enables it to share relevant information with other public sector organisations in a secure manner, as is crucial for the delivery of numerous essential Council services including Revenues and Benefits; Electoral Services, and Health and Social Care. To continue to be granted access to the PSN, the Council is required to meet specified ICT security standards. Each year, a Code of Connection (CoCo) assessment is completed and returned to the Cabinet Office, highlighting any areas of non-compliance with the PSN and the remediation plans in place to achieve full compliance. This year the Code of Connection expired on 29th May 2022, and we were keen to support the Cyber Security team to ensure there was no break in certification.
- 6.12 Each year an Information Technology Security Health Check (ITHC) is conducted by an external specialist consultant, in the form of a Penetration Test. Due to the pandemic and restrictions regarding access to our premises and IT assets, concluding the ITHC has been problematic and was delayed by approximately 3 months. This has the compound effect of reducing the time available to address any vulnerabilities prior to the PSN submission. Our penetration testing concluded January 2022 and was originally scheduled to have been completed October 2021.
- 6.13 Despite a challenging timetable, Audit were able to provide reasonable assurance around the assessment process, to enable the Council's Senior Information Risk Owner and Chief Executive to sign the certification application with confidence, so our CoCo will run concurrently until it expires on 29<sup>th</sup> May 2023.

- 6.14 A key transformation project towards building a better digital future for Manchester is the Resident and Business Digital Experience Programme (RBDXP). The council will implement an improved customer service offer to ensure that residents have a high quality, accessible and seamless experience when accessing council services. So that: -
- Digital is the preferred way for residents to access services leading to efficiency savings.
  - Manchester City Council becomes a digital leader of public services, reducing internal demand costs and increasing customer satisfaction, providing the best customer experience.
  - Residents are supported and enabled to become and remain regular and confident online users.
  - Improved collaboration with partners leading to better resident data and better outcomes Service area staff able to spend more time delivering key service.
- 6.15 Internal Audit are represented on the programme board and receive regular progress updates. We will track the creation of six mobilisation workstreams and monitor their effectiveness, providing assurance as required.

## **7 Neighbourhoods; Growth and Strategic Development Asset Management Plan Management**

- 7.1 We provided a reasonable assurance opinion over the arrangements in place to ensure the effective selection and management of projects on the Asset Management Plan (AMP). Whilst the strategic priorities of the AMP were clear, the rationale over how the inclusion of individual schemes were decided could be better evidenced. We also made recommendations to strengthen the governance arrangements surrounding use of the contingency and clarification of the role and remit of the various groups to ensure sufficient scrutiny, challenge, and oversight of the AMP.
- 7.2 Although some reporting was evident this could be strengthened to increase visibility of the planned AMP schemes and to formalise the review of risk mitigations to ensure they remain sufficient to address identified risks.

### **Local Investment Fund**

- 7.3 We carried out a short piece of advice in respect of the newly established Local Investment Fund, providing substantial assurance over the design and proposed administration arrangements for the fund. The suggestions we made were incorporated into the scheme's design before it was finalised.

### **Protect and Vaccinate**

- 7.4 We carried out a certification over £729k spend from the Protect & Vaccinate Grant, which was provided to the Council to provide targeted support to rough sleepers during the outbreak of the Omicron COVID variant.

### **AVRO Hollows**

- 7.5 We published a report giving Limited assurance over the management and discharge of operational functions by Avro Hollows TMO. We were concerned that records of repair requests were not all consistently logged upon receipt, and that the Modular Management Agreement detailing service expectations had not been formally agreed. We will carry out a dedicated follow up review later in 2022/23 to determine whether all agreed recommendations have been completed.

### **Building Control**

- 7.6 As part of the 2022/23 audit plan, we have liaised with the Director of Planning, Building Control and Licensing, and scoped an audit to review building control. This will be focused on the processes for dealing with unauthorised building work, service effectiveness and interaction with the Planning Enforcement team. Fieldwork should commence in July and reports issued in August 2022.

### **Youth and Play Provision Transition**

- 7.7 To provide assurance over the transition of the commissioning of Youth and Play Provision from Young Manchester back to the Council, we have agreed the terms of reference for a service review commencing in July. Assurances are sought to ensure there is an agreed strategy that is aligned with the Council's key priorities and objectives, appropriate governance arrangements have been established, that align with wider Council governance arrangements, and there is effective decision making, resourcing, and performance reporting.

## **8 Procurement, Contracts and Commissioning (PCC) Social Value**

- 8.1 Work is currently underway to provide assurance over current social value monitoring activity across Council contracts. A sample of contracts were selected covering all directorates and the evidence to support monitoring activity is currently being reviewed. The review will also cover current governance arrangements over the Social Value Fund and systems for measuring and reporting on the overall impact of social value benefits. We will finalise the review and report our findings in quarter two.

### **Our Town Hall - Management of Work Package Delivery**

- 8.2 Following on from our previous review of work package management during 2021 we agreed to complete a second review of this type. The focus this time is a single work package with multiple contractors to provide assurance over arrangements to ensure the effective management of the work package. Specifically, work is defined and allocated, processes are in place to assess work against time and quality standards, payments are in line with prices agreed and key project documents inform decision making.

- 8.3 Fieldwork has commenced, and we are in the process of reviewing key documentation to support the arrangements in place. We will report on the outcome of our review in quarter two.

#### **Adult Social Care: Contract Governance**

- 8.4 We recently agreed the scope and timing of our review of the contract governance framework within Adult Social Care which will be undertaken during quarter two. The importance of effective contract management arrangements and the management of relationships with providers is key to ensuring there remains adequate capacity to meet demand given current challenges including capacity, labour market shortages, recruitment, and retention.
- 8.5 As such, the audit seeks to provide assurance over the design and operation of the contract governance structure, performance framework and contract compliance and control arrangements.

#### **The Factory Project Assurance**

- 8.6 We agreed the scope and timing of this review last year but have been unable to progress the work as originally planned; to assess the arrangements in place for ensuring effective management of work packages for the project.
- 8.7 This work will focus on controls to ensure work is clearly defined and allocated to support the management of delivery; systems and processes are in place to assess work against time and quality standards; payments are made in line with prices agreed; and there are suitable controls over any variations and work package progress and delivery is reported to key stakeholders and used to inform decision making. The review will remain on our work programme as it is still considered to be a viable risk area over which assurance is sought. We will re-engage with the client in the next quarter.

#### **New Contract Management System**

- 8.8 The Council does not have a centralised Contract Management System that monitors all contracted activity/spend. Contracts are recorded locally in directorate contract registers on spreadsheets with no central repository to collate the individual directorate data. Audit and Risk Management provided support to the procurement team through the facilitation of a risk workshop and creation of a risk register, that now forms part of the project documentation.
- 8.9 When operational, the new CMS will: -
- Ensure all commercial activity is carried out in a transparent, auditable manner, compliant with internal regulations.



- Improve the efficiency and effectiveness of our contracting, whilst also mitigating the issues and risks associated with outsourcing.
- Enable services to identify and proactively plan for the pipeline of upcoming procurements to enable all contracts to be competitively tendered.
- Enable services to accurately record, manage and monitor all performance indicators including social value and environmental targets.

## **9 Counter-Fraud and Investigations**

### **Proactive**

- 9.1 Internal Audit have continued to liaise with officers from across the Council to co-ordinate the completion of the NFI exercise 2020/2022. This programme will close in Quarter 3 with uploads required in relation to the new exercise. Comments were feedback to the Cabinet Office in May as part of the NFI consultation on the future shape and scope of the work.
- 9.2 Work has been undertaken during the quarter to develop a fraud risk assessment tool for schools, this is being progressed with a view to it being rolled out to schools in July. Feedback from the exercise will be used to help direct future counter fraud training with school business managers.

### **Reactive: Corporate Cases**

- 9.3 Internal Audit have received 13 referrals of potential fraud or irregularity during the period April to June 2022. Of these 5 were considered whistleblowing allegations made either anonymously or from a named source and have been handled under the Council's Whistleblowing Policy and Procedure.
- 9.4 The nature of this work has remained consistent including concerns raised in several key areas including staff conduct, financial irregularities, related party transactions, false insurance claims and employee compliance with procedures.

### **Reactive: Other Investigations: Business Grants, Council Tax Reduction Scheme and Housing Tenancy**

- 9.5 Whilst the number of new referrals received in relation to the Covid 19 Business Support Grants has reduced significantly (5 were received in the period April to June), there remains a high number of investigations still ongoing which are being progressed positively in line with BEIS requirements.
- 9.6 In addition to this, 21 new referrals of fraud or irregularity in relation to the Council Tax Reduction Scheme, Housing Tenancy and Right to Buy discount were received in the period.
- 9.7 Two cautions were issued in relation to false claims for Covid 19 Business Support Grants and a further one was issued in relation to a false claim for a

Right to Buy discount. Invoices have been issued in relation to all three cases, totalling £63k.

- 9.8 The initial hearing took place in Magistrates Court in April in relation to one individual who had falsely claimed a Covid 19 Business Support Grants totalling £10k. A further hearing for this case is due to take place in July.
- 9.9 Keys have been returned to Northwards in relation to one property where the tenant had parted with possession and was illegally subletting the property.
- 9.10 Further details in relation to the counter fraud work undertaken in 2022 will be provided as part of the Annual Fraud Report scheduled for September 2022.

## **10 Appendices**

**Appendix One: Audit Status, Opinions and Business Impact 2021/22**

<b>Audit Area</b>	<b>Audit Status</b>	<b>Assurance Opinion</b>	<b>Council Impact</b>
<b>Children and Education Services</b>			
Divine Mercy Primary School	Final Report	Limited ●	Low
SEND (local offer)	Briefing Note	N/A	High
Schools Financial Value Scheme 2021/22	Completed	N/A	Mandatory
Safer Recruitment in Schools	Draft Report	Set at Final	High
Children's Supervisions	Draft Report		High
Elective Home Education	Planning		Medium
Foster Care - payments system	Planning		High
Abraham Moss High School Assurance Health Check	Planning		Low
Cyber Security in Schools - thematic review	Not Started		High
OFSTED - post report assurance	Not Started		High
Church of the Resurrection School Assurance Health check	Not Started		Low
Charlestown Primary School Assurance Health check	Not Started		Low
Oswald Road Primary School Assurance Health Check	Not Started		Low
Early Years - Case management & Recording	Not Started		High
Supporting People - assurance to GMCA	Not Started		Mandatory
Children's Data Quality	Not Started		High

<b>Health and Care (Adult Services)</b>			
Multi Agency Safeguarding Hub (MASH)	Final Report	Reasonable ●	High
Direct Payments – Assurance	Final Report	Reasonable ●	High
Adults Management Oversight and Supervisions	Draft Report	<i>Reasonable</i> ●	High
Health and Social Care: Assurance Framework Review	Fieldwork Complete	Set at Final	High
Adults Care Package Payments	TOR issued		High
Homecare Brokerage Team	Not Started		High
Performance Reporting Framework	Not Started		High
Adult Services – Full Quality Assurance Framework	Not Started		High
Health and Care Reform	Not Started		High

Manchester Service for Independent Living - Adaptations Delivery Model	Not Started		High
<b>Corporate Core</b>			
Information Governance Privacy Notices	Final Report	Reasonable ●	Medium
PSN Code of Connection	Briefing Note	Reasonable ●	Medium
Core Financial Systems – lessons learnt from External Audit	Briefing Note	N/A	Medium
Grant Certification: Public Sector Decarbonisation Scheme (PSDS) Phase 1	Grant Certified	Certified ●	Mandatory
Grant Certification (EU): Area Based Collaboration in Cities (ABCitiEs)	Grant Certified	Certified ●	Mandatory
ICT Hardware Asset Management	Draft Report	<i>Reasonable</i> ●	High
ICT Vulnerability Management	Draft Report	<i>Reasonable</i> ●	High
Payment Card Industry - Compliance	Fieldwork Started	Set at Final	High
Grant Certification (COVID): Contain Outbreak Management Fund	Fieldwork Started		Mandatory
Meridian - Contract Management	Fieldwork Started		Medium
Council Tax Energy Rebate Scheme Delivery and Assurance	Fieldwork Started		Mandatory
Vendor Management	Planning		Medium
Joiners Movers Leavers	Not Started		High
Debt Recovery and Write Offs	Not Started		Medium
Core Financial Systems – Assurance Mapping	Not Started		High
ICT Project Assurance: Flare Replacement	Not Started		High
Single Person Discount – Process Assurance	Not Started		Medium
Grant Certification (EU): Zero Carbon Cities (ZCC)	Not Started		Mandatory
ICT - Cyber Assurance	Not Started		High
Payroll	Not Started		High
Bank and Imprest Accounts	Not Started		High
Climate Change – Action planning	Not Started		High
<b>Neighbourhoods; Growth and Development</b>			
Estates Planning - Asset Management Plan	Final Report	Reasonable ●	High

Local Investment Fund	Final Report	Substantial ●	Medium
Grant Certification (COVID): Protect and Vaccinate	Grant Certified	Certified ●	Mandatory
Culture Recovery Fund Grant – Part 2 (additional work)	Fieldwork Complete	Set at Final	Medium
Youth Services - new service delivery model	TOR issued		Medium
Building Control - compliance with new legislation	TOR issued		Medium
Traded Services - Pest Control	Planning		Medium
Housing Operations - Void and Empty Properties (follow up)	Planning		High
Project Assurance - Victoria North & Piccadilly Gardens	Planning		High
Disabled Facilities Grant Certification	Not Started		High
Housing Operations - Consumer Regulations	Not Started		High
Housing Operations - Building Safety Regulations	Not Started		High
Avro Hollows Follow up review	Not Started		High
Highways Grant Certifications	Not Started		Mandatory
Regulatory Services	Not Started		Medium
Traffic Signals Maintenance Funding	Not Started		Mandatory

<b>Procurement, Contracts and Commissioning</b>			
Social Value Monitoring	Fieldwork Started	Set at Final	High
Our Town Hall Work Packages and Payments (2nd tranche)	Fieldwork Started		High
Adult Social Care: Contract Governance	Planning		High
Factory Work Packages	Planning		High
Zero Carbon in Contracts	Not Started		High
Contracts Risk Management Practices	Not Started		High
Homelessness Supported Accommodation - Governance and Control	Not Started		High
Suppliers – Invoice Prompt Payment Compliance	Not Started		Medium

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**Appendix Two: Audit Report Executive Summaries (Opinion Audits)**

The following Executive Summaries have been issued for the audit opinion reviews finalised since April 2022 and as requested by Audit Committee are attached below for information.

<b>Reference in Appendix</b>	<b>Audit Title</b>
A	Privacy Notices
B	Divine Mercy – Financial Health Check
C	Asset Management Plan
D	Local Investment Fund

<b>Internal Audit Report 2021/22</b> <b>Corporate Core Directorate</b> <b>UK GDPR Privacy Notices</b>
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<b>Distribution - This report is confidential for the following recipients</b>	
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<b>Name</b>	<b>Title</b>
Michael Seal	Data Protection Officer, Responsible Officer
Fiona Ledden	City Solicitor and Senior Information Risk Owner, Accountable Officer
Poornima Karkera	Head of Governance
Councillor Craig	Executive Member and Leader of the Council
Joanne Roney	Chief Executive
Carol Culley	Deputy Chief Executive and City Treasurer
Simon Livesey	External Audit (Mazars)

<b>Report Authors</b>		
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Auditor	Erica Corbett	0161 234 5285
Lead Auditor	Kate Walter	0161 234 5292
Head of Audit & Risk Management	Tom Powell	0161 234 5273

Draft Report Issued	3 May 2022
Final Report Issued	18 May 2022



## Executive Summary

Audit Objective	Assurance Opinion	Business Impact
To provide assurance over the provision of privacy information to data subjects.	Reasonable	Medium

Sub objectives that contribute to overall opinion	Assurance
Roles, responsibilities, and expectations are clearly defined and understood.	Reasonable
Privacy templates and guidance are available to all Council departments.	Substantial
Current privacy notice content meets legal requirements.	Substantial
Systems and processes are in place to assess and review privacy notices.	Reasonable
Privacy notices are accessible and given to individuals at the correct time.	Limited

Key Actions	Risk	Priority	Planned Action Date
Ensure all relevant privacy notices are tailored to individual user groups.	Significant	6 months	31 Oct 22
Ensure service specific privacy notices are communicated to individuals at the correct time.	Significant	6 months	31 Oct 22

Assurance Impact on Key Systems of Governance, Risk and Control		
Finance	Strategy and Planning	Resources
Information	Performance	Risk
People	Procurement	Statutory Duty

## 1. Audit Summary

- 1.1. The Data Protection Act (2018) and the UK General Data Protection Regulation (UK GDPR) sets out in UK law the legal framework with which all organisations must comply when they process personal data. These include a requirement to provide accessible information to individuals about the use of their personal information (data), and that this should be set out in a privacy notice.
- 1.2. Provision of this key information to individuals at the right time is a key element of their legal right to transparency, and non-compliance could expose the Council to a substantial fine and lead to reputational damage. This area has not previously been audited, therefore we agreed to provide assurance over legal compliance and best practice. The impact to the Council has been assessed by Internal Audit as Medium.

## 2. Conclusion and Opinion

- 2.1. We are able to provide a **reasonable** opinion over the provision of privacy information to data subjects.
- 2.2. A privacy notice covering the Council's general data processing activities as well as a number of service specific privacy notices were available on the internet and these were consistent, centrally held and complied with legal requirements. Systematic reviews of privacy notices were undertaken involving Democratic Services Legal Team and those across the Council with information governance roles.
- 2.3. However, there were some areas for improvement in the communication of this privacy information to stakeholders, with specific privacy notices not always being provided at the correct time and information not tailored to be understood by audiences with particular needs e.g. children. Directorate Senior Information Risk Owners (DSIROs) also did not have a formal assurance mechanism for assessing whether all relevant processing activity was covered by an existing privacy notice.
- 2.4. It is important to note that everyone who processes personal information is responsible for privacy and each service area is responsible for ensuring that the relevant privacy notices are drafted, published, reviewed and communicated to stakeholders at the correct time. We were assured that the corporate arrangements to support service areas in this respect were appropriate, and the issues we identified will require engagement with business leads to address. We consider that the Data Protection Officer is best placed to co-ordinate this activity and obtain the requisite assurance over its completion, and so our recommendations are directed to him as Lead Officer in the first instance but recognise this is likely to also require action and support from members of the Corporate Information Assurance and Risk Group (CIARG), DSIROs, the Democratic Services Legal team and service leads.

- 2.5. We have made three recommendations (two significant, one moderate) to improve the privacy notice process. These are detailed in the action plan.

### **3. Summary of Findings**

#### **Key Areas of Strength and Positive Compliance**

- 3.1. Information governance roles were in place including data governance leads and DSIROs feeding into a monthly CIARG and Information Governance Steering Group.
- 3.2. The Council has a corporate privacy notice covering its general data processing activities as well as a number of privacy notices for service areas. Privacy notices are easily accessible on the Council's website and there are links to the Council's privacy information and general privacy notice within a banner at the bottom of the website and at the bottom of all external emails.
- 3.3. Completion and retention of privacy notices is managed through a consistent approach co-ordinated by the Democratic Services Legal Team, who had developed clear guidance and templates to support staff. These were available through the intranet. As part of the team's role, they also worked with DSIROs and service leads to draft and review privacy notices. All DSIROs and service leads we spoke to were aware of the guidance and had consulted with Democratic Services Legal Team.
- 3.4. Recent mandatory cyber security training for all Council staff specifically highlighted the role and importance of privacy notices, and privacy information was included in the '12 golden rules of protecting information and GDPR' which had previously been the subject of targeted communication to all staff.
- 3.5. A sample of 14 privacy notices (the general Council notice and 13 service specific notices) that we reviewed all contained the required legal information.
- 3.6. In line with the Information Commission Officer's (ICO) guidance, the information was regularly and systematically reviewed to ensure notices remain accurate and up to date, and complaints from the public were analysed and used to inform service improvements.
- 3.7. There were several means of capturing and communicating privacy information from and to service areas, including initial project advice and discussions, general golden rules, Information Governance communications to all staff, analysis of complaints and data protection impact assessments (DPIAs).

#### **Key Areas for Development**

- 3.8. Whilst there was a systematic review process in place for privacy notices already created, no specific exercise had been carried out to match service area data processing to available privacy information, to establish whether all

required privacy notices have been produced. While this was not within the scope of our work, we noted that the Council's Information Asset Register (IAR) had not recently been reviewed, which could otherwise provide a useful basis for this matching exercise. We have been advised by the Information Governance Lead that work to refresh the IAR is underway with a revised approach for improvement due by the end July 2022.

- 3.9. We found one instance of data processing (Insurance and Claims) that was not covered by the service area privacy notice as advised by Democratic Services Legal Team. The relevant service lead and DSIRO have agreed to develop content to address this omission.
- 3.10. All the privacy notices we reviewed followed standard wording as reflected in the template documentation, but none were tailored to specific users. ICO guidance states that privacy information should be tailored to specific audiences in instances where the intended audience has been identified as unlikely to understand the standard information given. Whilst tailored notices would not be expected in the majority of cases, we did not identify any tailored privacy information in the instances we might have expected, for example for the Youth Offending Service and within Children's Services.
- 3.11. We sampled 13 services where data was collected from residents / businesses. At the point of data collection only two of these provided individuals with the service specific privacy information (ICO guidance states that links should direct users straight to service specific privacy notices). The majority provided links to the Council's general privacy notice or terms and disclaimers. Four did not give out any privacy notice information at the time of data collection.
- 3.12. Some updates to privacy notices that have been identified as being required have yet to be completed. The majority of these are minor updates to notices in Children's Services and Adult Social Care, which the DSIRO had identified as required, and was addressing at the time of our work

<b>Internal Audit Report 2021/22</b> <b>Children's and Education Services</b> <b>Financial Health Check (The Divine Mercy RC Primary School)</b>
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<b>Distribution - This report is confidential for the following recipients</b>	
<b>Name</b>	<b>Title</b>
Ann Walsh	Head Teacher
Glyn Young	Chair of Governors
Jane Tonge	School Business Manager
<b>The final report will also be issued to the following recipients</b>	
Councillor Bridges	Executive / Cabinet Member
Joanne Roney	Chief Executive
Carol Culley	Deputy Chief Executive and City Treasurer
Fiona Ledden	City Solicitor
Paul Marshall	Strategic Director, Children's and Education Services
Amanda Corcoran	Director of Education & Skills
Reena Kohli	Directorate Finance Lead, Children's Finance
Andrea Daubney	Assistant Director for Education
Simon Livesey	External Audit (Mazars)

<b>Report Authors</b>		
Auditor	Asma Uddin	0161 234 7332
Senior Auditor	Bethan Booth	0161 219 6697
Lead Auditor	Emma Maddocks	0161 234 5269
Deputy Head of Audit & Risk Management	Richard Thomas	0161 234 52732

Draft Report Issued	11 January 2022
Updated Draft Report Issued	17 May 2022
Final Report Issued	27 June 2022



## Executive Summary

Audit Objective	Assurance Opinion	Business Impact
To provide assurance to the Governing Body and the Local Authority over the adequacy, application and effectiveness of financial control systems operating at your school.	Limited	Medium

Sub objectives that contribute to overall opinion	Assurance
Allocation of financial roles and responsibilities.	Substantial
Long term financial planning, budget approval and monitoring and recovery planning.	Reasonable
Key financial reconciliations.	Reasonable
Expenditure, specifically purchasing and payroll.	Limited
Income collection and recording.	Substantial

Key Actions (Appendix 1)	Risk	Priority	Planned Action Date
Quotations should be obtained and where necessary a tendering exercise completed for all transactions over £2000.	Significant	6 months	
Official school purchase orders should be raised on Financial Management System (FMS) and should be signed by an authorised signatory in advance of the purchase being made with the supplier.	Significant	6 months	
All debit card purchases should be approved in advance and individual transaction limits should not be exceeded unless there is an emergency or appropriate approval is sought in advance. In addition, there is only one card at the school in the following name "Divine Mercy RC PR - Ms Suzanna Novak". However, the school have two members of staff who use the school card, not Ms Novak. The card should only be used by the named card holder or in this instance given the school is	Significant	6 months	



the named card holder we consider it should be an authorised signatory on the school bank account.			
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<b>Assurance Impact on Key Systems of Governance, Risk and Control</b>		
Finance	Strategy and Planning	Resources
Information	Performance	Risk
People	Procurement	Statutory Duty

## 1. Audit Summary

- 1.1. The 2021/22 Internal Audit plan included an allocation of time to complete financial health checks at a sample of Local Authority maintained schools. The Divine Mercy RC Primary School was selected as part of this programme of audits, due to elapsed time since the last audit review. This review was completed partly office based and a day on site in the school, due to Covid19.

## 2. Conclusion and Opinion

- 2.1. We are only able to provide **Limited** assurance over the adequacy, application and effectiveness of financial control systems operating at the school. This opinion is based on our findings and the need for improvement in controls over purchasing, including the use of quotation and tenders for purchases exceeding £2000, ensuring all purchases are approved in advance of the commitment being made, that debit card purchases do not exceed the purchase limits and the debit card is only used by the named card holder.
- 2.2. We also identified scope for improvement around documenting controls, such as dating the bank reconciliations and payroll requisitions to demonstrate timely review and minuting budget discussions at Governing Body. More detail is provided on these issues with significant and moderate risk recommendations in Appendix 1.

## 3. Summary of Findings

### Key Areas of Strength and Positive Compliance

- 3.1. The School Development Plan (SDP) covers a 3-year period and provides clear links in the action plan to the relevant budget implications.
- 3.2. The budget and budget assumptions were submitted to the Local Authority by the deadline, and these show a surplus budget.
- 3.3. Detailed monthly budget monitoring reports are provided to management.
- 3.4. A review of spend by supplier report is presented to Governors annually, which provides oversight and the opportunity to challenge any high value cumulative spend with individual suppliers.
- 3.5. Due to COVID related delays in the post arriving, management printed bank statements weekly and reconciled them to ensure timely bank reconciliations continued.
- 3.6. Starters and leavers are processed in a timely fashion. Payroll reports and reconciliations are retained along with supporting evidence to support any changes to payroll.



- 3.7. We were satisfied with control of cash. Cash is held in the safe with the exception of the float in the office till, and the safe insurance limit is sufficient to cover the amount of cash collected. There was a clear and auditable trail for all the cash that we tested, and we were able to track it from entering the office to being banked and showing on the bank statements.

### **Key Areas for Development**

- 3.8. We have made three significant and five moderate recommendations in total to help improve the key financial controls across the school. The significant risk recommendations relate to the following issues:
- For all purchases over £2,000 (except where a legitimate exemption applies) three quotations should be obtained or an appropriate tendering exercise completed depending on value. This is to demonstrate that value for money has been achieved.
  - Purchasing controls should be improved to ensure compliance with the School's Financial Regulations and the Scheme of Financial Delegation for all purchases. Purchases must be approved in advance of the spending commitment with the supplier. All suppliers should be paid within 30 days unless there is a dispute with regards to the order.
  - Arrangements for use of the school debit card should be improved to ensure timely approval to ensure that appropriate records are retained to support each purchase and to ensure that the cards are only used by authorised bank signatories.

<b>Internal Audit Report 2021/22</b> <b>Core – Estates Services</b> <b>Asset Management Plan Management (Neighbourhoods)</b>
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<b>Distribution - This report is confidential for the following recipients</b>
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<b>Name</b>	<b>Title</b>
Richard Munns	Head of Corporate Estates and Facilities, Responsible Officer
Carol Culley	Deputy Chief Executive and City Treasurer, Accountable Officer
Jared Allen	Director of Capital Programmes
Mark Lister	Property Asset Manager
Neil Fairlamb	Strategic Director of Neighbourhoods

<b>The final report will also be issued to the following recipients</b>
-------------------------------------------------------------------------

Councillors Rahman/Akbar	Executive Members
Joanne Roney	Chief Executive
Fiona Ledden	City Solicitor
Simon Livesey	External Audit (Mazars)

<b>Report Authors</b>
-----------------------

Lead Auditor	Clare Roper	07940 410849
Deputy Head of Audit & Risk Management	Richard Thomas	07971 227687
Head of Audit and Risk Management	Tom Powell	07956 317457

Draft Report Issued	13 June 2022
Final Report Issued	30 June 2022



**Executive Summary**

<b>Audit Objective</b>	<b>Assurance Opinion</b>	<b>Business Impact</b>
To provide assurance over the arrangements in place to ensure the effective selection and management of projects on the Asset Management Plan.	Reasonable	Medium

<b>Sub objectives that contribute to overall opinion</b>	<b>Assurance</b>
There is a clear strategy for the selection and prioritisation of asset management projects.	Reasonable
Appropriate governance arrangements exist to monitor delivery of projects.	Reasonable
Reporting of programme delivery is sufficient and is used to inform decision making.	Reasonable

<b>Key Actions (Appendix 1)</b>	<b>Risk</b>	<b>Priority</b>	<b>Planned Action Date</b>
Improved recording of the decision making process to support the selection and prioritisation of schemes onto the Asset Management Plan.	Significant	6 Months	November 2022

<b>Assurance Impact on Key Systems of Governance, Risk and Control</b>		
Finance	Strategy and Planning	Resources
Information	Performance	Risk
People	Procurement	Statutory Duty

## 1. Audit Summary

- 1.1 The Asset Management Plan (AMP) provides a survey based, prioritised programme for capital replacement works and asset improvements to ensure the offices, depots, leisure, cultural and other properties providing services and facilities to the public, continue to meet statutory and service requirements, deliver long term value and support a well-run Council.
- 1.2 We agreed to undertake this work as a clear approach to the prioritisation of areas for inclusion on the AMP helps reduce the risk that Council assets are not maintained sufficiently and guards against future financial, safety and reputational consequences. This audit focused on those elements of the Council estate falling under the Neighbourhoods Directorate.

## 2. Conclusion and Opinion

- 2.1 Overall, we are able to provide **reasonable** assurance over the arrangements in place to ensure the effective selection and management of projects on the AMP.
- 2.2 The strategic priorities of the AMP were clear although the rationale over how the inclusion of individual schemes is decided could be better evidenced. We support recent developments which included the production of a longer-term investment plan and the introduction of a contingency element within the budget. We consider the governance arrangements surrounding the use of this contingency could be strengthened to better track its use and provide a consistent way in which the allocation and approval of contingency funding can be recorded.
- 2.3 Our sample testing across 15 AMP schemes in the Neighbourhoods Directorate identified that many schemes are complex in nature and often straddle multiple years. The importance of cross team and service collaboration was evident in the planning and management of schemes and a recognition of the need to work closely with the Carbon Reduction team to meet Council priorities. Further to this, the AMP Steering Group met regularly to monitor the delivery of schemes and agree actions where needed. There may be opportunities to streamline governance between this group and other stakeholder and decision making groups and have made a recommendation to this effect.
- 2.4 Reporting related to the AMP could be enhanced to improve overall visibility on a directorate basis. This may help reduce the need for follow-up questions and enquiries as to progress on schemes. We also consider there would be benefits from additional reporting and monitoring activity in respect of key risks to provide assurance that mitigations continue to be effective for any risks identified.

### 3. Summary of Findings

#### Key Areas of Strength and Positive Compliance

- 3.1 The AMP for 2021/2022 was presented to the Estates Board for approval in January 2021. From a review of the accompanying report, it was clear that the high level plan sought to focus on addressing the most urgent priorities as determined by the stock condition survey whilst recognising there would be additional liabilities outside of the survey data that will arise in the next 5 years.
- 3.2 We agreed with an area of development already identified by key officers to develop a longer term investment programme for the AMP. In our opinion this should help to better plan, coordinate and manage the AMP to meet strategic and service priorities; and highlight long-term investment risks. Work had culminated in the production of a five year investment programme to address the current backlog maintenance liability across the estate resulting from years of austerity, a lack of resources and limited understanding of the condition of properties. Although this was presented to the Strategic Capital Board in June 2021, we consider it appropriate for the Estates Board to have a more active role in the approval of the AMP in future years. Given the importance of the AMP in maintaining our assets, ensuring compliance with safety and other standards and the challenges associated with addressing the backlog of works within finite financial resources, we consider an increased level of strategic oversight is appropriate.
- 3.3 The AMP Steering Group, the principal group discharged with the ongoing monitoring of delivery of the AMP, was well attended by officers from a range of relevant service areas. From a review of minutes, we were satisfied the group met regularly, meetings followed a structured agenda and minutes of discussions and key areas for action were documented.
- 3.4 Our review confirmed that cross service collaboration in terms of the delivery of the AMP was evident. There was evidence of communication between key services and stakeholders, such as capital programmes and facilities management regarding planned and current works.
- 3.5 Sample testing confirmed the widespread use of project briefs to instruct colleagues within Capital Programmes and Procurement to undertake works. This provided key details including a description of the required works, the funding source, estimated cost and anticipated year of spend. The project brief for the schemes reviewed were appropriately signed by the Technical Officer or Property Asset Manager.
- 3.6 Monthly dashboard reporting to the Strategic Capital Board (SCB) took place. We reviewed recent examples of these which confirmed a standard format was followed which included the following pertinent information:
  - Pipeline and approval progress for all projects within the CP1 and CP4 approvals process.

- Summary of forecast expenditure 2021/22 and future forecasts with RAG rating.
- Key programme activities and benefits realisation.
- Risk log.
- Individual portfolio dashboards then follow (of which the Corporate Estate and Neighbourhoods dashboard were of relevance in this review).

- 3.7 A number of risks had been highlighted and reported through the monthly dashboard report to SCB (March 2022) these included a red rated risk for Neighbourhoods in terms of the ongoing concern around prices and lead times in the supply chain which was impacting several projects. An amber risk was also highlighted within the same report in terms of insufficient funding in AMP to deliver works to all Council assets. Current mitigations were presented alongside the risk which included the decision to instruct contractors to make early purchases of materials and work with legal to consider contract amendments which do not leave the Council unduly exposed.
- 3.8 Our sample testing of 15 schemes confirmed that scheme folders contained key relevant information on file including Cost Plan Acceptance Form, Project Brief, investigation/survey reports, internal memos, site meetings and relevant site progress update emails. We saw evidence to confirm that learning was identified and recorded for one of the schemes tested to inform delivery and approach to other schemes.
- 3.9 A contingency element was built into the AMP budget for new priorities that arise requiring AMP support that are not already included in the future work programme. We understand any requested additions are evaluated by the AMP Steering Group although we consider the records to support the use and approval of contingency could be strengthened.

### **Key Areas for Development**

- 3.10 The 2022/23 AMP was discussed at both the AMP Steering Group in January 2022 and the Strategic Capital Board in March 2022. We did not however see evidence to confirm this was reviewed and approved by the Estates Board which we would consider to be appropriate to provide greater strategic oversight given the financial costs associated with the AMP and potential risks surrounding management and delivery of the AMP. Given no minutes are currently taken of the SCB it was not possible to determine the discussion which took place over the annual AMP as part of the approval process. As such, there was a lack of evidence to support decision making and resource allocation.
- 3.11 There was clarity over the strategic investment priorities which the AMP sought to address however the evidence trail behind the decision to include/not include a scheme on the AMP was less evident. We therefore consider the basis of decision making ahead of the plan being finalised could be better documented to explain the rationale behind the inclusion of each scheme on the plan, confirmation that the qualifying criteria has been met and the associated risks of non completion of the scheme. Possible options to record this effectively could

involve the introduction of a template to confirm which priorities (AMP and corporate) the scheme supports and potential risks and impact associated with non completion of the scheme. Adoption of a scoring mechanism, as used by other areas of the Council, to help rank schemes. Some examples of possible criteria to use were shared with the Council as part of the Construction Innovation Hub's (CIH) Value Toolkit launch and may be relevant to consider in this process.

- 3.12 Due to the nature of works falling under AMP the need for works (outside of the annual budget planning process) will arise and we agreed with the decision to include a contingency element within the annual AMP budget (£400k). Nonetheless we consider the current record keeping to support use of the contingency could be strengthened and a more consistent approach adopted.
  
- 3.13 We consider there would be value in maintaining a log/schedule of works funded through contingency. This could include the approved opening fund balance, amount used to date (schemes and reason for the need for funding), schemes awaiting approval and remaining balance available for the period. Similarly in terms of approval we would expect the approval of schemes using the contingency fund to require the same level of approval as planned schemes on the AMP and recommend that the basis of decision making is recorded in a consistent way. A template could be introduced for this purpose which provides detail of the scheme and confirms the key criteria requirements have been met.
  
- 3.14 Regular dashboard reporting to the SCB took place, however no minutes or action points were taken for this meeting which limits the evidence available to confirm the scrutiny that takes place over the AMP schemes. We note this report covers the whole Council which reduces the capacity to review schemes in detail within one meeting.
  
- 3.15 It was less clear the role the Estates Board had in terms of the oversight and approval of the AMP which should be clarified although we were satisfied regular discussions took place with the Executive Member. We understand the Covid pandemic impacted on the frequency with which the Estates Board met though we were informed this has now resumed. Clarity of the respective roles, remit and scope of each group (AMP Steering Group, SCB, Estates Board) should help to ensure sufficient oversight and scrutiny of the AMP and minimise duplication or omission to provide assurance over the effective and timely discharge of responsibilities in terms of the AMP.
  
- 3.16 Monitoring of the AMP by the AMP Steering Group centred around the AMP progress report spreadsheet. Our observation was that this contained a lot of detail. We understand it was the intention for this to fit onto one side of A3 for ease of review. However, as a result, some of the information was very brief and we consider that this may not be sufficiently detailed to allow for an up-to-date position of the scheme to be determined or to enable the highest risk schemes/issues with current schemes to be easily identified. This presents a risk that due to the brevity of status update/current position of the scheme this does not sufficiently reflect the extent of progress or issues and may prevent the direction of resources/support or an increased focus in the areas where this is

most needed. Other options could be for a sample of schemes to be selected for a deep dive on a rotational basis to review the status of the works and risks to the achievement of the scheme in more detail.

- 3.17 Whilst risks to the achievement of the AMP were reported through the SCB dashboards, regular monitoring and reporting of the status of risks and the strength of current mitigations should be explored to ensure this provides sufficient assurance over the management of risks.
- 3.18 Sample testing of 15 AMP schemes identified further areas where overall administration could be improved. These included:
- No project brief on file (Audit sample number: 4, 6)
  - Project brief/CPAF not signed (4, 13, 15)
  - No CPAF on file when required (6)
  - AMP progress sheet did not accurately reflect correct stage or costings. (1, 4, 5, 7, 8, 9). For example, a value included within the slippage column and not then added to the 2022/23 budget figure or no budget figure included for the year of spend or a stage of the project selected which was not the true position (CPAF, SoS etc.).
  - Last update on the AMP progress report was provided more than a month ago in most cases.

The AMP team provided explanations for some of the missing documentation (project brief/CPAF) which was mainly due to the schemes not having been set up by the AMP team and instead came via an instruction from senior management.




**Internal Audit Assurance Review Report 2022/23**
**Neighbourhoods: Local Neighbourhood Teams**
**Local Investment Fund (LIF)**
**Distribution - This report is confidential for the following recipients**

<b>Name</b>	<b>Title</b>
Shefali Kapoor	Head of Neighbourhood Management, Responsible Officer
Rob Dillon	Neighbourhood Manager
Fiona Worrall	Strategic Director Neighbourhoods, Accountable Officer
Councillor Akbar	Executive Member
Joanne Roney	Chief Executive
Fiona Ledden	City Solicitor
Simon Livesey	External Audit (Mazars)

**Report Authors**

Senior Auditor	Erica Corbett	35285
Lead Auditor	Kate Walter	35292
Deputy Head of Internal Audit & Risk Management	Richard Thomas	41019
Head of Internal Audit & Risk Management	Tom Powell	35273

Draft Report Issued	12 May 2022
Final Report Issued	16 May 2022


**Executive Summary**

Assurance Objective	Assurance Opinion	Business Impact
To provide assurance over the proposals for a new Local Investment Fund	Substantial	Low

Assurance Impact on Key Systems of Governance, Risk and Control		
Finance	Strategy and Planning	Resources
Information	Performance	Risk
People	Procurement	Statutory Duty

**1. Audit Summary**

- 1.1. The Local Investment Fund (LIF) is a new flexible fund made available through the Council's mainstream revenue funding to support the delivery of ward priorities, as identified through the Ward Plan. Elected members will be able to identify key projects / activities where this funding will enable wider benefits to the ward. Unlike the Neighbourhood Investment Fund (NIF) this is not available for residents to directly apply.
- 1.2. The Local Investment Fund will make £20,000 available per ward. With 32 wards in Manchester this fund will make a total of £640,000 available for local initiatives. Examples may include small improvements in public parks, environmental improvements, or improvements to community assets.
- 1.3. We agreed with the Head of Neighbourhood Management to undertake an audit review to assure the proposals over the design of the fund. One of the aims of the fund is to be flexible in its design so that it can best support locally determined areas of need, however we have reviewed the proposals to provide assurance that this flexibility is balanced alongside a transparent and objective decision-making process that is resilient to scrutiny and challenge and helps maximise benefits accruing from fund expenditure.

**2. Conclusions and Opinion**

- 2.1. Based on our discussions with staff and review of the documentation provided we were able to provide **substantial** assurance over the proposals and documentation in place. We have undertaken this review in partnership with the team and discussed suggestions and amendments to the proposals with them to reach a consensus on the final content of the scheme documentation.
- 2.2. From our review of key documentation, we confirmed that key considerations had been identified and were clearly stated in project papers. We had confidence in the overall proposals outlined but made several suggestions for



improvements, prior to the projects commencing. These have now been included within the project documentation and are detailed below.

### **3. Findings and Incorporated Improvements**

#### Governance proposals:

- 3.1. The governance proposals covered the key principles, processes, evidence files, ineligible spend, payment process and data protection / privacy considerations.
- 3.2. The following suggestions have now been incorporated within the governance document:
  - Clarity around the ability to roll forward unused funding into the next financial year by exception only.
  - Clarity over decision making in the event of Member disagreement.

#### Project overview form:

- 3.3. A project overview form is to be completed for every project.
- 3.4. The following suggestions have now been incorporated within the form template;
  - A link to ward priorities in Ward Plans and Our Manchester Strategy priorities.
  - Declaration of interests for any Neighbourhood Officers and Councillors.
  - Clearly documented Member approval, and
  - Consideration of zero carbon and equality and diversity.

#### Monitoring spreadsheet:

- 3.5. This has been based on the same design used to monitor the Neighbourhood Investment Fund. We have agreed some improvements to fund monitoring as follows;
  - Ownership and responsibility for scrutiny of the monitoring spreadsheet needs to be established. We acknowledge these will be ward based decisions, however there should be some 'city-wide' monitoring to maintain oversight of how the total fund balance is spent. This should



include consideration of any implications for mainstream budgets going forward.

- An annual summary should be produced for presentation to the Executive Lead for Neighbourhoods. This should be able to demonstrate some level of improvement and any lessons learned.
- Where the monies go to community groups, specific outcomes and objectives should be clearly defined, monitored, and verified, to ensure they are being delivered.
- LIF funds should ideally have their own accounting cost centre to make transaction monitoring easier.

### Appendix Three: Basis of Audit Assessments (Opinion/Priority/Impact)

Level of Assurance	Description		
<i>The level of assurance is an auditor judgement applied using the following criteria</i>			
Substantial	Sound system of governance, risk management and control. Issues noted do not put the overall strategy / service / system / process objectives at risk. Recommendations will be moderate or minor.		
Reasonable	Areas for improvement in the system of governance and control, which may put the strategy / service / system / process objectives at risk. Recommendations will be moderate or a small number of significant priority.		
Limited	Significant areas for improvement in important aspects of the systems of governance and control, which put the strategy / service / system / process objectives at risk. Recommendations will be significant and relate to key risks.		
No	An absence of effective governance and control is leaving the strategy / service / system / process open to major risk, abuse or error. Critical priority or a number of significant priority actions.		
Priority	Assessment Rationale		
<i>The priority assigned to recommendations is an auditor judgment applied using an assessment of potential risk in terms of impact and likelihood.</i>			
Critical	Significant	Moderate	Minor
Actions < 3 months	Actions < 6 months	Actions < 12 months	Management discretion
<ul style="list-style-type: none"> <li>• Impact on corporate governance</li> <li>• Life threatening / multiple serious injuries or prolonged work place stress</li> <li>• Severe impact on service delivery</li> <li>• National political or media scrutiny</li> <li>• Possible criminal or civil action</li> <li>• Failure of major projects</li> <li>• SMT required to intervene.</li> <li>• Statutory intervention triggered.</li> <li>• Large (25%) impact on costs/income</li> <li>• Impact on the whole Council.</li> </ul>		<ul style="list-style-type: none"> <li>• Some impact on service governance</li> <li>• Some risk of minor injuries or workplace stress</li> <li>• Impact on service efficiency</li> <li>• Internal or localised external scrutiny</li> <li>• Procedural non compliance</li> <li>• Impact on service projects</li> <li>• Handled within Service</li> <li>• No external regulator implications</li> <li>• Cost impact managed at Service level</li> <li>• Impact on Service or Team</li> </ul>	
Impact			
<i>Impact is the auditor assessment of criticality of the strategy / service / system / process being audited to the achievement of the Council's priorities and discharge of functions and duties in the following areas. This is described in the Audit Terms of Reference</i>			
Strategic Objectives		Key Partnerships	
Safety and Welfare		Finance and Resources	
Corporate Risk		Key Service Fulfilment	
Organisational Change		Statutory Duty	

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**Manchester City Council  
Report for Information**

**Report to:** Audit Committee – 26 July 2022

**Subject:** Outstanding Audit Recommendations

**Report of:** Head of Audit and Risk Management

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**Summary**

In accordance with Public Sector Internal Audit Standards, the Head of Audit and Risk Management must “establish and maintain a system to monitor the disposition of results communicated to management; and a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action”. For Manchester City Council this system includes reporting to directors and their management teams, Strategic Management Team, Executive Members and Audit Committee. This report summarises the current implementation position and arrangements for monitoring and reporting internal and external audit recommendations.

**Recommendations**

The Committee is recommended to note the service review update and receive further progress reports.

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**Wards Affected:** All

<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
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None
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<b>Equality, Diversity and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
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None
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<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/Contribution to the Strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	An effective internal audit service is an integral part of the Council's governance arrangements. It helps to maintain and develop good governance and risk management and provides independent assurance over the effectiveness of the Council's systems of control. This contributes to being a well-run Council and indirectly to the achievement of organisational objectives and the OurManchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

**Financial Consequences – Revenue = None**

**Financial Consequences – Capital = None**

**Contact Officers:**

Carol Culley  
Deputy Chief Executive and City Treasurer  
Tel: 0161 234 3506  
E-mail: carol.culley@manchester.gov.uk

Tom Powell  
Head of Audit and Risk Management  
Tel: 0161 234 5273  
E-mail: tom.powell@manchester.gov.uk

Richard Thomas  
Deputy Head of Audit and Risk Management  
Tel: 0161 455 1019  
E-mail: richard.thomas@manchester.gov.uk



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

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- Internal Audit reports to Audit Committee
- Outstanding Audit Recommendations Report to Audit Committee – February 2022

## **1 Introduction**

- 1.1 Audit Committee are provided with regular reports on actions taken to address outstanding high priority recommendations made by both Internal and External Audit.
- 1.2 There are four categories of recommendation priority: critical, significant, moderate, and minor. This report provides the details of progress to address outstanding recommendations in the high risk (critical and significant) categories and an update on proposed next steps. This report focuses solely on Internal Audit recommendations, as there are currently no high priority External Audit recommendations currently outstanding.

## **2 Background**

- 2.1 Internal Audit usually follows up management actions on high-risk recommendations at least quarterly to obtain assurance that progress is being made to address risk. Management is required to provide demonstrable evidence to show that agreed actions have been implemented. Internal Audit considers this evidence and may choose to re-test systems and controls on a risk basis to provide assurance that agreed improvement actions have been implemented and are operating effectively.
- 2.2 Where a limited or no assurance opinion is issued, a full follow up audit is undertaken after 6-12 months to test whether agreed areas for improvement have been addressed.
- 2.3 In addition to recommendations agreed as part of our planned assurance reviews, we have now formalised our approach to capturing and tracking recommendations made through audit investigations. From July, as part of our continuous improvement regime, in specific circumstances where we find systemic control weaknesses or gaps, we will produce an action plan for management, identify action owners and agree implementation dates. Critical and significant recommendations will be monitored via the existing processes.
- 2.4 Where system related issues are found, we may include them in standard recommendation reporting to Committee but that may not be appropriate in all cases, for example, if the recommendation relates to actions needed to be taken to reduce the risks of fraud, theft etc where publishing to the public at large would present an increased likelihood of crime. For completeness we will report progress on all fraud related audit activity to the Committee through the Counter Fraud Annual report.
- 2.5 Progress made in the implementation of agreed actions is reported quarterly to Directorate Leadership Teams (DLTs), Strategic Management Team (SMT) and Audit Committee. Executive Members are notified of high priority recommendations reaching six months overdue. At nine months overdue, Strategic Directors are required to attend Audit Committee with the relevant Executive Member to explain the position and progress to either address or accept the reported risks.

- 2.6 In accordance with Audit Committee expectations, the risk relating to recommendations that are not fully implemented will not be written back to Strategic Directors when they are over 12 months past the agreed implementation date. This period has been extended to 18 months and Directors will continue to attend this Committee to outline the reasons for delay and mitigating actions that they consider have reduced risk exposure to a tolerable level.

### 3 Current Implementation Position Update

- 3.1 The position in terms of high priority internal audit recommendations implemented is summarised below and in detail at Appendix 1. Overdue recommendations are detailed in Appendices 2,3 and 4.
- 3.2 Recommendations for improving the control environment within schools are monitored by Internal Audit however these are not included within this report for the following reasons: -
- There is a high volume generated through our School Financial Health Checks
  - They tend to be repetitive as they address re-occurring themes in common procedural areas e.g., bank reconciliation, raising purchase orders etc
  - Action owners are usually Headmasters and School Business Managers, and we are unlikely to request action owners to attend Audit Committee.
- 3.3 To ensure the Committee are sighted on the position, we have summarised the statistics relating to school recommendations within a separate table. This includes supporting narrative and forms part of the update paper requested by Committee, and this referenced under a separate heading on the July 2022 agenda.
- 3.4 At the April 2022 meeting, the Committee requested a progress update on Housing Operations – Void and Empty Property recommendations. This review had a limited assurance opinion. The recommendation action plan is attached as Appendix 5 with updates provided.

#### Outstanding Recommendations – over 12 months

- 3.4 Of the three outstanding recommendations reported to Audit Committee in February 2022, only two remain as partially implemented, as summarised in the table below:

Directorate	Audit Title	Due Date	Months	Status
Adults	Mental Health Casework	30/9/19	34	Partially implemented
Adults	Transitions	30/6/18	49	Partially implemented

### **Section 106 notices**

- 3.5 The overdue recommendation in relation to Section 106 is now fully implemented. The remaining action concerning officer recruitment has now been completed and the new structure is in place. A full planning review has been completed and is now fully implemented. Internal audit has also reviewed a recent example of the system generated Section 106 reports, evidencing a departure from static reporting, and emailing of S106 data, to a more fluid and dynamic model.
- 3.6 This model provides a textual and graphic interpretation of the data using Microsoft Excel workbooks available within Microsoft Teams structures. There is a schedule produced for each ward, available to ward councillors and neighbourhood officers, along with specific focussed workbooks relating to Affordable Housing.

### **Mental Health Casework**

- 3.7 An update on the outstanding mental health recommendation confirmed that the recommendation is still partially implemented. There remains processes in place within Greater Manchester Mental Health NHS Foundation Trust (GMMH) to monitor safeguarding activity on a weekly basis with performance being overseen by the Council's Performance and Governance Manager, but GMMH staff have not yet gained the required access and training to access Liquid Logic to directly input safeguarding activity in order to complete the safeguarding cycle.
- 3.8 The safeguarding process on Liquid Logic has recently been amended for all of Adults Social Care staff and a variation of this process has been created for GMMH which was tested on 1 July 2022. This testing confirmed that a minimum of two administration staff in each mental health team will be needed to ensure someone with appropriate access and training is able to sign off the end-to-end process on Liquid Logic. It is planned to backdate the entry to Liquid Logic to April 2022 to capture a full year's data. The new safeguarding process is due to go live on 5 September 2022, so this is the target date to have the necessary administration staff ready to access Liquid Logic.

### **Transitions**

- 3.9 We have confirmed that the transitions recommendation in relation to performance indicators remains partially implemented. The Assistant Director for Adults Services confirmed in our latest updates that some regular reporting is being completed but it is a manual process, it is time consuming and does not include specific performance indicator or performance reporting. Audit have seen a reporting template that has been developed with PRI for performance reporting on transitions once the necessary updates have been made to liquid logic workflows.
- 3.10 Delays to reports including more performance reporting are due to delays in transitions workflows being added to Liquid Logic to enable system-based

reports to be produced. The current plan for this to be complete is September 2022 and at this point formal performance reports will become operational.

#### **Significant / Critical Overdue Recommendations – 6 to 12 months**

- 3.11 There are two recommendations that have been overdue for between six and twelve months, both are partially implemented and relate to the same audit review; Placement Finding: Review of Core Processes. More detail is given in Appendix 3 below.

#### **Significant / Critical Overdue Recommendations – 1 to 6 months**

- 3.12 There are three recommendations that have recently been classified as overdue, relating to audit reviews of Highways Compensation Events, and two from work undertaken on Use of Waivers and Extensions. All three are partially implemented and require further work to be closed and classed as being fully implemented. We will continue to monitor these to completion. More detail is given in Appendix 4 below.

#### **Not Yet Due**

- 3.13 A total of 15 recommendations rated significant are not yet overdue, these will be tracked through to implementation. All have been agreed as part of audit work and reports finalised in the period January 2022 to June 2022.

#### **4 Recommendation**

- 4.1 Audit Committee is requested to note the current process, the inclusion of recommendations via investigation work, and position in respect of high priority Internal Audit recommendations.

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## Appendix 1 – Implemented Recommendations

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
Section 106	31 May 2020	Reconcile the new database to the various records held across the Council and update the database to ensure details of all 106 agreements are recorded in a single place.	Accepted	The creation of the new database to bring together various records held across the Council has been completed. All the records have now been merged and the new database continues to be updated and improved on an ongoing basis. Older agreements requiring reference back to paper files for reconciliation has been completed and evidence provided to validate. The appointment of a dedicated officer in the new structure has delayed progress but this is now complete.	<b>No further action required</b>
Our Town Hall: Management of Work Package Delivery and Payments	31 Aug 2021	Follow up action is undertaken by the Project Team to confirm the Construction Cost Report maintained by F&G is updated to reflect the discrepancies identified as part of the audit and ensure the figures reported is in alignment with those maintained by the management contractor.  Further work may be needed to undertake similar reconciliations for the other work packages to ensure the issues identified here are not widespread amongst other work packages.	Conduct thorough review of each Works Package to ensure accurate allocation of budget transfers against all Instructions. Transition the project from the current system of separate Lendlease and F&G cost reporting into a single project cost report based on the Kahua system. Merge the two separate MEP packages contracted to NG Bailey into a single package to tidy up divergences.	An update provided by the project team in March 2022 confirmed all outstanding divergence to the end of January 2022 had been cleared and we reviewed evidence to support this. We also confirmed the work package totals for those reviewed as part of the original audit agreed with no discrepancies. We were informed that there is likely to be ongoing divergence owing to timing issues, but the plan is to close these out within the routine monthly cycle.	<b>No further action required</b>

Supplier Due Diligence	30 Nov 2021	<p>The ICP team should work with the Due Diligence Working Group, Internal Communications and directorate leads to develop the current contract management guides to include sections on ongoing financial due diligence and disseminate guidance to all relevant contract management and commissioning staff.</p> <p>Guidance should include the following:</p> <p>Consideration and reflection of relative risks in their contracts based on criticality, materiality, nature of market etc.</p> <p>Clarification of roles and responsibilities.</p> <p>Market Intelligence: (Given the diversity of Council contracts and commissions this will need to be flexible to reflect sectoral intelligence but could include for example GM or Core Cities Networks / Professional Networks (ADASS etc.) / Central Government Bulletins / Trade and Financial Press), sign ups to strategic supplier updates.</p> <p>Local Intelligence: Guidance to emphasise the need for regular, ongoing contract management to consider potential red flags or lead indicators that could suggest</p>	<p>Agreed.</p> <p>We have a workshop with Commissioning and Contracting Leads, and Finance, on 12 August to help develop a more consistent approach to identifying, monitoring, and responding to risks.</p> <p>We will update guidance on the intranet accordingly and circulate to staff.</p>	<p>The service has developed comprehensive new contract management guidance which includes ongoing financial due diligence requirements.</p> <p>This is available to all relevant contract and commissioning staff on the intranet.</p>	<b>No further action required</b>
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	<p>potential financial failure or non-delivery of contracts. Indicators could include non / reduced attendance on site or within services, slowing of work or unexplained delays in deliverables, sub-contractor complaints over timeliness of payments.</p> <p>Use and frequency of 'Company Watch' reports and alerts, with a simple guide for staff on its use and interpretation.</p> <p>Formal escalation process, including referral to finance where concerns are flagged.</p> <p>The potential use of management information to facilitate oversight of contracts including those suppliers considered to be strategic suppliers to facilitate prompt action if becoming aware of any warnings indicating supplier failure.</p>			
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<p>Placement Finding: Review of Core Processes</p>	<p>30 Nov 2021</p>	<p>The Commissioning Service Manager should enhance the current controls in place to make the process around IPAs more efficient. This should consider:</p> <p>Expectations around issuing IPAs following a placement and ways of ensuring these timescales are met.</p> <p>How this can be easily determined when an IPA has not been returned by the provider.</p> <p>Expected timescales over chasing non returned IPAs along with any forms of escalation to be applied.</p> <p>Varying signatory requirements on the IPAs in accordance with the cost of the placement.</p>	<p>We accept the findings and will review the agreements in the IPA.</p>	<p>An update from the service confirmed the following actions have been taken since the previous update:</p> <ul style="list-style-type: none"> <li>-IPAs are now completed by Centralised Placement Team officers. Weekly meetings with the Service Lead/Team Manager ensures IPAs are finalised and issued to providers more promptly.</li> <li>-Clinics undertake spot checks of IPA completion.</li> <li>-Commissioning officers have standard agenda items at provider meetings which includes IPA. This ensures any IPAs awaiting return are escalated formally within a contract meeting.</li> <li>-The implementation of monthly keeping in touch days with providers includes the discussion of IPAs.</li> <li>-Providers have been contacted by letter and reminded to return IPAs in a timely manner or payments may be put on hold.</li> <li>-Future developments include providing access to the Controcc provider portal where outstanding actions can be highlighted more easily.</li> </ul>	<p><b>No further action required</b></p>
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## Appendix 2 – Recommendations Over 12 Months Overdue

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
Mental Health Casework Compliance	30 Sept 2019	The Director of Adult Services should ensure that a formal process is agreed and established with the Trust for a monthly reconciliation between safeguarding referrals sent and received. Trust and Council staff should work together to ensure that the new case management systems in each organisation – Paris and Liquid Logic, respectively – consistently record outcomes of safeguarding referrals, so that these can more easily be transferred across systems to ensure completeness of Council records and ability to monitor outcomes.	It is accepted that safeguarding outcomes need to be recorded in MiCare (Liquid Logic in future). Quality and Performance group will consider options to ensure this can be done efficiently and effectively.	<p>Our latest update on progress confirmed that the trust continues to send data every month to the Council, and this includes data on all safeguarding activity, so this includes safeguarding generated externally and thereby logged on Liquid Logic, and safeguarding alerts generated within the trust which does not get logged on Liquid Logic.</p> <p>The Governance and Performance Manager (Mental Health) however confirmed that GMMH admin staff still do not have access to liquid logic to allow safeguarding outcomes to be concluded on Liquid logic and closed. This step has been delayed due to the safeguarding process on Liquid Logic having been recently amended for all of Adults Social Care and a variation of this process having been created for GMMH which was tested on 1 July 2022.</p> <p>This testing confirmed that a minimum of two administration staff in each mental health team will be needed to ensure someone with appropriate access and training to sign off the end-to-end process on liquid logic. It is planned to backdate the entry to liquid logic to April 2022 to capture a full year's data. The new safeguarding process is due to go live on liquid logic on 5 September 2022, so this is the target date</p>	<p><b>Director:</b> Bernadette Enright, Executive Director of Adult Social Services</p> <p><b>Executive Member:</b> Councillor Robinson.</p> <p><b>Status:</b> 34 months overdue</p> <p><b>Action:</b></p> <p>Internal Audit will follow up progress after the 5 September deadline for Trust staff to have access to liquid logic.</p>

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
				<p>to have the necessary administration staff ready to access Liquid logic.</p> <p><b>Internal Audit Opinion:</b> Partially Implemented</p>	
<p>Transitions to Adult Services 15 Feb 2018</p>	<p>30 June 2018</p>	<p>To support day to day performance management the Interim Deputy Director of Adults Social Services should introduce a suite of Key Performance Indicators. This should be defined once the strategy and vision in place.</p> <p>A long-term solution should be considered and built into Liquid Logic to help identify performance trends and provide assurance to senior management.</p>	<p>Key performance Indicators (KPIs) to be introduced.</p>	<p>The Assistant Director for Adults Services confirmed in our latest updates that some regular reporting is being completed but it is a manual process, it is time consuming and does not include specific performance indicator or performance reporting.</p> <p>Audit have seen a reporting template that has been developed with PRI for performance reporting on transitions once the necessary updates have been made to liquid logic workflows.</p> <p>Delays to reports including more performance reporting are due to delays in transitions workflows being added to Liquid Logic to enable system-based reports to be produced. The current plan for this to be complete is September 2022 and at this point formal performance reports will become operational</p> <p><b>Internal Audit Opinion:</b> Partially Implemented</p>	<p><b>Director:</b> Bernadette Enright, Executive Director of Adult Social Services</p> <p><b>Executive Member:</b> Councillor Robinson.</p> <p><b>Status:</b> 49 months overdue</p> <p><b>Action:</b> Internal Audit to confirm by end of September 2022 that Liquid Logic workflows for transitions have been developed and that performance reporting is being completed.</p>

### Appendix 3 – Recommendations between 6 and 12 Months Overdue

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
Placement Finding: Review of Core Processes	30 Sept 2021	<p>The Commissioning Service Manager with the support of officers from finance should determine how management information and reports can be used to more promptly to identify and act on:</p> <ul style="list-style-type: none"> <li>-outstanding unpaid invoices which require resolving;</li> <li>-unbilled care received;</li> <li>-instances where payments are being made to multiple carers for a single child.</li> <li>-Other overpayments to carers/providers.</li> </ul> <p>This should then be produced regularly and shared with relevant officers to allow for these cases to be addressed. Work should also be undertaken with providers to ensure they are billing correctly to facilitate payment i.e., one invoice per child and this should include all costs related to the placement (accommodation plus any support costs).</p>	<p>This is a complex area and one that also requires the input from finance officers and practitioners linked to the practice of placing children with care givers. CPT and CC do not always know when such issues arise particularly if they are internal foster carers.</p> <p>The Controcc system requires a high level of expertise which we do not have in the service, particularly to run reports which are accurate. This aspect is also a resource and capacity issue, and discussions are on-going with senior leaders regarding this aspect.</p>	<p>This recommendation remains partially implemented and we are awaiting the findings of internal audit work currently underway to determine whether the status can be changed to implemented.</p> <p><b>Internal Audit opinion:</b> Partially implemented</p>	<p><b>Director:</b> Paul Marshall, Strategic Director of Children’s Services</p> <p><b>Executive Member:</b> Councillor Bridges</p> <p><b>Status:</b> Nine months overdue</p> <p><b>Action:</b> To reconsider the status of the recommendation following the results of the Internal Audit data analytics review.</p>
Placement Finding: Review of Core Processes	30 Nov 2021	<p>The Commissioning Service Manager in conjunction with Social Work Managers should consider current placement closedown processes and how the risk of payments to more than one carer for the same child and</p>	<p>As acknowledged this aspect is wider than CPT, the responsibility for entering the details of placements and closing placements are the tasks for social workers. CPT and CC do not routinely know</p>	<p>This recommendation remains partially implemented and we are awaiting the findings of internal audit work currently underway to determine whether the status</p>	<p><b>Director:</b> Paul Marshall, Strategic Director of Children’s Services</p> <p><b>Executive Member:</b> Councillor Bridges</p> <p><b>Status:</b> Seven months overdue</p>

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
		<p>period could be identified in advance to prevent significant repeated overpayments. This should include ceased arrangements and transfers in internal foster carers; Special Guardianship Orders, extra allowances, and other costs. Once the correct process is determined this should be reflected in the Fostering, Post 16 and Residential workflow diagrams which have been produced recently.</p>	<p>when SGO's are granted, or children move internally if this is agreed within the duty service for fostering. Meetings have taken place with HOS, LS, finance, and LL lead with regard to this matter and there is not a resolution in the system which would allow more control in the fostering service. The practice continues and the issues become compounded if children are in multiple short-term placements. We are implementing weekly check ins for all children moving in and out of the service to try to get ahead of the payment issues. However, further work is needed from across CSC localities to support this aspect.</p>	<p>can be changed to implemented.</p> <p><b>Internal Audit opinion:</b> Partially implemented</p>	<p><b>Action:</b> To reconsider the status of the recommendation following the results of the Internal Audit data analytics review.</p>

## Appendix 4 – Recommendations between 1 and 6 Months Overdue

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
Highways Compensation Events Review	31 March 2022	<p>The further development of quality assurance processes by the Highways PMO should continue and consider other means of gaining assurance and confidence over the management of CEs to facilitate the removal of the need for contract variation reports and approval of the DCECT. This could include the introduction of regular sample review checking of CEs to provide assurance over the operation of controls, compliance with the NEC contract and Council processes, greater scrutiny where the CE is because of a design flaw on our part.</p> <p>This should also consider the introduction of reporting on CEs. This could provide analysis over CEs to inform future learning. This could include:</p> <ul style="list-style-type: none"> <li>-number of CEs per project grouped per clause.</li> <li>-rejected CEs and defects.</li> <li>-degree of compliance with key contractual timescales.</li> </ul>	<p>Reporting is in place and will be issued to senior officers monthly. There is also a Highways Authorisation Matrix which has been shared with staff which details the CE approval process. All full-time staff have received NEC training with PMs and Commercial staff ECC accredited.</p> <p>The reporting of CEs monthly, in line with the approach agreed with the Commercial Board, will commence alongside further contract report approvals.</p> <p>CEs will continue to be reported through project governance structures and approved at Director level depending on value and impact.</p>	<p>The latest update provided by the service confirmed that compensation event (CE) information is held on the CE trackers for all live projects. The Highways Authorisation Matrix has been shared with officers and continues to be applied across the programme and manages the approval of project CEs. All permanent PMs and Qs are now NEC 4 accredited with a further 2 APMs working towards becoming PMs are to attend accreditation training summer 2022.</p> <p>In terms of reporting, a major projects PM dashboard is reported which includes data on CEs for each project. CEs continue to be reported through project governance structures and approved at Director level depending on value and impact.</p> <p>Whilst steps have been taken to improve the quality assurance framework as spot checking processes are not yet operational, we consider the status of this recommendation to be partially implemented.</p> <p><b>Internal Audit opinion:</b></p>	<p><b>Director:</b> Neil Fairlamb, Strategic Director Neighbourhoods.</p> <p><b>Executive Member:</b> Councillor Rawlins</p> <p><b>Status:</b> Three months overdue</p> <p><b>Action:</b> To continue to monitor progress.</p>

Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
Use of Waivers and Extensions	31 May 2022	<p>The ICP Team should develop a formal system for the process of submitting and approving waiver and contract requests. This should include a mandatory control for all waivers over £50k to be submitted to the Deputy Chief Executive and City Treasurer by ICP, to provide assurance of their agreement.</p> <p>Consideration should be made to integrating the Teams Approvals function into the system to support more unambiguous authorisations and a self-contained audit trail.</p>	<p>The ICP Team are currently exploring options including Teams functionality to support with this. The team are also looking to procure a new contract management system with functionality that will support management of approvals. In the immediate term, the team has already amended the waiver template form to explicitly confirm that ICP Management have been consulted beforehand. We will confirm with directorates that waivers and extensions, along with contract award reports more generally have to go through the ICP Team.</p>	<p>Partially implemented.</p> <p>The waivers form now requires ICP approval for all waivers over £50k with changes in behaviour already seen by the service. This is alongside additional controls such as the new Highways Procurement Board. However, no formal system for submitting these has yet been considered so the recommendation remains outstanding in part.</p> <p><b>Internal Audit opinion:</b> Partially implemented</p>	<p><b>Director:</b> Carol Culley, Deputy Chief Executive and City Treasurer</p> <p><b>Executive Member:</b> Councillor Akbar</p> <p><b>Status:</b> One month overdue</p> <p><b>Action:</b> To continue to request updates from the service and evaluate progress.</p>
Use of Waivers and Extensions	31 May 2022	<p>The ICP team should work with Legal Services to simplify the Constitutional wording around contract authorisations. Wording around delegated authority should be explicit and unambiguous, with clear definitions of authorised officers.</p> <p>This should be reflected in procurement guidance and disseminated to commissioning and authorising officers. We advise that ICP take their observations regarding</p>	<p>Agree, subject to Constitutional amendments being confirmed. The ICP Team are currently working with Legal Services and directorates to develop proposed revisions for the Constitution</p>	<p>The ICP team have worked with Legal Services to simplify the Constitutional wording around contract authorisations however this is currently still in draft and due to be finalised in September / October 2022.</p> <p><b>Internal Audit opinion:</b> Partially implemented</p>	<p><b>Director:</b> Carol Culley, Deputy Chief Executive and City Treasurer</p> <p><b>Executive Member:</b> Councillor Akbar</p> <p><b>Status:</b> One month overdue</p> <p><b>Action:</b> To continue to request updates from the service and evaluate progress.</p>



Audit Title	Due Date	Recommendation	Management Response	Update/Opinion	Ownership and Actions
		waivers/direct award and delegated authorities to the Commercial Board for discussion.			

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## APPENDIX 5 – Progress on significant recommendations - Housing Operations Void and Empty Property

Ref	Matters Arising	Risks and Consequences	Priority	Recommended Action & Management Response	Progress
1	<p>There was no single reconciled list of all voids and strategic and day-to-day voids were not viewed and reported together. The majority of strategic voids were not on QL. We found three lists containing strategic voids, all of which had different information / properties.</p> <p>Whilst reports were run on rent loss and Council tax, these were not included on void registers, did not include strategic properties and were not kept in one place, therefore the total associated costs were difficult to establish.</p> <p>There were 49 strategic voids which fell under the responsibility of Housing Services which would be better placed under the responsibility of Housing Operations (Northwards).</p> <p>Council Tax were charging 3x rates for properties that have been empty over 2 years which has greatly increased the costs of long-term voids and could impact any options appraisals.</p> <p>From our testing we found Northwards paid £190k and strategic housing paid £165k in 2020/21 in</p>	<p>The full (corporate) picture and status of voids is not known.</p> <p>Ineffective void services fail to make use of social assets, incur rent losses, Council Tax payments, fail to ensure VFM, incur additional costs through property decline, cause poor reputation and are detrimental to sustainable neighbourhoods.</p>	Significant <6 months	<p><b>Action:</b> There should be comprehensive register of all voids with clear associated costs.</p> <p>Responsibility for all long-term strategic voids should be taken by Housing Operations (Northwards).</p> <p>A full reconciliation should be undertaken for all strategic voids to ensure the correct Council Tax is being paid, and consideration should be given to apply for an exemption for those awaiting demolition.</p> <p>Consideration should be given to adding all void properties onto QL to enable reporting.</p> <p><b>Management Response:</b> Agreed</p> <p>All the above will form a key part of the Strategic Void group. Recovery of void council tax when overcharged to be investigated.</p> <p><b>Lead Officer:</b> Angela Raftery, Assistant Director of Housing Operations</p> <p><b>Planned Completion Date:</b> 30 September 2022</p>	<p>The first meeting of the Strategic Void Group was held on the 23 May 2022 and now meets monthly.</p> <p>The initial meeting agreed the terms of reference of the group and shared the detail of all known voids including what would be classed as strategic voids but also voids which also form part of turnover voids and which should be let as part of the c 550 relets which occur every year.</p> <p>The group were tasked with reviewing all voids and determining the status of voids and the accuracy of the current void reports. The intention to combine reports to ensure 'one version of truth' in terms of numbers for reporting purpose and for prioritising through the group for appraisal and action for decision making where appropriate for bringing back into use where long term void.</p> <p>The financial loss for the majority of the voids has been calculated to provide clear</p>

Ref	Matters Arising	Risks and Consequences	Priority	Recommended Action & Management Response	Progress
	<p>Council Tax for void properties. We found seven properties that were classed as empty, resulting in strategic housing being charged Council Tax, however these had been brought back into use / occupied, and therefore charges of £24.5k were incorrect. There were a further 16 awaiting demolition that could potentially apply for a Council Tax exemption.</p> <p>Rent loss on day-to-day voids from April 21 to January 22 was £569k. Rent loss should be included in any cost/benefit analysis.</p>				<p>oversight of the financial implication of the properties remaining empty and as a measure for reducing void rent loss and void council tax loss.</p> <p>Further work is being undertaken on the long-term voids. A review of these did determine that several empty properties had in fact been knocked into one property and were in fact no longer classed as an empty property.</p> <p>Once the status of all voids is determined where properties are not currently held on QL for reporting purposes, the aim will be for these to be created on to QL for ease of reporting and monitoring. This will enable the Finance team to seek to recover any overpaid council tax or ensure Council Tax have the correct status of the property and are charging correctly.</p>
2	<p>Decision making with regards to long term voids was unclear.</p> <p>There was no governance structure in place and no clear path for decision making for strategic voids at the time</p>	<p>Decisions are not made in a timely manner, increasing void times and monetary loss.</p>	<p>Significant &lt;6 months</p>	<p><b>Action:</b> The new Governance Proposals drafted by the Assistant Director of Housing Operations shall be implemented in full, including:</p> <ul style="list-style-type: none"> <li>• The strategic void meeting group reporting to the Housing Board</li> <li>• Proposed record keeping</li> </ul>	<p>Strategic Void Group established – first meeting 23 May and monthly thereafter.</p> <p>Terms of reference established and actions progressing as detailed above.</p>

Ref	Matters Arising	Risks and Consequences	Priority	Recommended Action & Management Response	Progress
	of our fieldwork and these were not being prioritised.			<ul style="list-style-type: none"> <li>• Category allocation review</li> <li>• Development of options appraisal (to include socio economic considerations), and</li> <li>• Clear timescales and prioritisation.</li> </ul> <p><b>Management Response:</b> Agreed</p> <p><b>Lead Officer:</b> Angela Raftery, Assistant Director of Housing Operations</p> <p><b>Planned Completion Date:</b> 30 September 2022</p>	
3	<p>Options appraisals on long term voids were not being carried out.</p> <p>The Asset Management Strategy contained minimal reference to long term voids and contained outdated references to roles and responsibilities.</p>	<p>The Council are not controlling assets and are incurring costs and loss of income for assets that could be used for homeless and households occupying a high-cost unit of temporary accommodation etc.</p> <p>Underdeveloped void management plan leads to unclear roles and responsibilities, duplication and delays and ultimately financial loss.</p>	Significant <6 months	<p><b>Action:</b> Detailed options appraisal guidance should be developed, and a full options appraisal should be undertaken for all strategic voids including a cost benefit analysis to ensure investment / repair decisions are well informed, and based on future use / strategic plans / community plans etc.</p> <p>The Asset Management strategy should be updated to include proposals for record keeping / assessment / decision making / reporting and Management Information.</p> <p><b>Management Response:</b> Agreed</p>	<p>With clarity on all voids, the next steps for the Strategic Void Group will be to prioritise where action is needed and the relevant appraisal work to be undertaken.</p> <p>Review of the current appraisal process if still to be undertaken and will draw on established processes in place across MCC.</p> <p>The Asset Management Strategy has been updated for 2022-2025 to align to the transition of Northwards Housing into MCC.</p>

Ref	Matters Arising	Risks and Consequences	Priority	Recommended Action & Management Response	Progress
				<p><b>Lead Officer:</b> Karen Newcombe, Head of Investment and Strategic Asset Management</p> <p><b>Planned Completion Date:</b> 30 September 2022</p>	A thorough review of the Strategy will be undertaken during 22/23.
4	<p>There was no performance information for strategic voids and performance reports were mostly run by team managers and not for strategic overview.</p> <p>The average time taken to relet day-to-day void properties in Q3 was 96.4 days (151.39 unadjusted) against a target of 27 days. Rent loss for day-to-day voids was 1.74% against a target of 0.67%. The position indicated the management reports run were not being used to full effect and better oversight is needed by management.</p> <p>Arrangements for monitoring were not included in any policies.</p>	<p>The management information relating to voids is insufficient or not produced on a timely basis.</p> <p>Lack of robust management oversight could lead to an increase in the total period individual properties are void.</p> <p>If the system is not used in full, performance information on achieving voids targets cannot be produced centrally and therefore there is no Council wide overview or comparison of figures.</p>	Significant <6 months	<p><b>Action:</b> Proposals for ownership and oversight of reporting of management/performance information for all void properties should be developed to tie in with the new governance proposals.</p> <p>Arrangements for and frequency of the management monitoring and reporting should be included within the relevant policies.</p> <p><b>Management Response:</b> Agreed</p> <p><b>Lead Officer:</b> Angela Raftery, Assistant Director of Housing Operations.</p> <p><b>Planned Completion Date:</b> 30 September 2022</p>	<p>The tracking of the end-to-end key processes for managing voids has been reviewed and a comprehensive tracking report is nearing completion which will enable oversight and monitoring for all voids. This will be used operationally and to enable the relevant reporting and monitoring by the Strategic Void group and reporting through the HRA Capital Programme group which will be the decision making group for proposals resulting from appraisals.</p> <p>KPI reporting on 'turnover' voids is reported through the Housing Advisory Board.</p> <p>Policies amendments have not yet been made to document all the changes which are ongoing.</p>

**Footnote** – When the limited opinion report was discussed at Audit Committee in April 2022, Members requested further information relating to the management of 'day-to-day' void and empty properties, as opposed to the longer term, strategic voids that were the focus of our recent audit review. Through discussions with the Housing Operations team, we have established the following: -

- The contractor Equans are still experiencing sub-contractor problems and therefore the target recovery to get back to standard working for voids is likely to be July/August.
- MCC Housing Operations have a backlog of voids which are awaiting surveyor specifying the remedial works that are necessary. Additional agency surveyors are currently in place with an aim to clear this backlog by July. These voids will then be passed to Equans, which will initially increase the backlog held with them, but will enable easier monitoring and ensure they are subject to the recovery plan actions.
- There was nothing included in the contract terms which allows recovery of void rent loss due to poor performance by the contractor.
- As the recovery plan target dates are reached and works in progress for both day to day repairs and voids revert to expected standard/throughput levels, we expect to see improvements in KPI performance over Q2 & Q3 (Dec 2022).

Internal audit will complete a follow up review of Void and Empty properties in quarter four, as is standard practice for limited or no assurance opinions. We will cover the "day to day management of voids and empties in the scope to ensure that there is systematic reporting of void rates to the Housing Board and provide an update on progress of the recovery action plan for current void / empty properties.

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**Manchester City Council  
Report for Information**

**Report To:** Audit Committee – 26 July 2022

**Subject:** Prudential Framework Changes

**Report of:** Deputy Chief Executive and City Treasurer

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**Purpose**

To report on revised CIPFA Prudential and Treasury Management Codes of Practice.

**Recommendations**

The Audit Committee is asked to note the contents of the report

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**Wards Affected:** Not Applicable

<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the city
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None
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<b>Equality, Diversity, and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
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None
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<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/Contribution to the Strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

### **Financial Consequences**

**Revenue** – None

**Capital** – None

#### **Contact Officers:**

Name: Carol Culley

Position: Deputy Chief Executive and City Treasurer

Telephone: 0161 234 3406

E-mail: carol.culley@manchester.gov.uk

Name: Tom Wilkinson

Position: Deputy City Treasurer

Telephone: 0161 234 1445

E-mail: tom.wilkinson@manchester.gov.uk

Name: Tim Seagrave

Position: Commercial Finance Lead

Telephone: 0161 234 3445

E-mail: timothy.seagrave@manchester.gov.uk

Name: Amanda Samuriwo

Position: Treasury Manager

Telephone: 0161 600 8490

E-mail: amanda.samuriwo@manchester.gov.uk

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

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Treasury Management Strategy Statement 2021/22, including Borrowing Limits and Annual Investment Strategy (Executive – 16<sup>th</sup> February 2022, Resource and Governance Scrutiny Committee – 28<sup>th</sup> February 2022, Council – 4<sup>th</sup> March 2022)

## 1 Introduction and Background

1.1 Capital finance and treasury management in local government is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance and the Code of Practice on Treasury Management in Local Authorities (the Codes). The Codes form the prudential finance framework within which local authorities should manage the financial risks associated with capital investment, treasury investment, and borrowing.

1.2 Treasury Management in this context is defined as:

*'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.*

1.3 There has been increased scrutiny of local authority 'commercial activity' since concerns were first flagged by the Public Accounts Committee in November 2016. The NAO report 'Local Authority Investment in Commercial Property' published in 2020 raised questions about the extent to which DHCLUC and HMT could rely on the Prudential Framework in its then form, to support value-for-money decision making in the current legal and financial context – the scale of investment of public funds in this activity from 2017, the concentration of this activity in a relatively small group of authorities, and the use of borrowing to finance such investments was described by the NAO as 'striking' with a need for this to be considered alongside potential financial sustainability and value for money.

1.4 Since inception, CIPFA have revised the Codes on a number of occasions, to ensure that the regulations reflect current market conditions and concerns. Further revisions have now been made in the light of the above concerns.

## 2 Context

2.1 As noted in the interim treasury management report to Audit Committee in November 2021, CIPFA have consulted with local authorities on changes to both the Prudential Code and the Treasury Management Code.

2.2 The Codes form part of the prudential borrowing risk management framework for local authorities, alongside guidance on investments and minimum revenue provision (MRP) issued by DLUHC, and Public Works Loan Board (PWLB) borrowing guidance.

2.3 The consultations followed changes to the borrowing rules from the PWLB that reflected Government concerns about local authorities borrowing funds to invest in assets solely for the return generated, rather than for service delivery. The intention of the consultations was to reinforce the risks associated with "for yield" investments, and to provide members and the public with more information about the scale of commercial investments that an authority may hold.

### **3 Revised CIPFA Prudential and Treasury Management Codes of Practice**

- 3.1 The revised codes were published in late 2021 and contain a number of significant changes which the Council will need to implement in time for the Treasury Management Strategy Statement for 2023/24, and which will therefore form part of the budget presented to members in early 2023. The main changes in the code are described below.
- 3.2 The Prudential Code closely aligns to the recent changes in PWLB lending conditions and reinforces that local authorities must not borrow to invest primarily for financial return. In doing so, it introduces requirements around proportionality, alongside the existing Code objectives of affordability and prudence.
- 3.3 The Code identifies three different investment types, all of which would need to be covered with an authority's Capital and Treasury Management strategies:
- Investments for treasury management purposes;
  - Investments for service purposes; and
  - Investment for commercial purposes, which would include commercial property.
- 3.4 Creating this distinction then allows for the creation of a further prudential indicator, namely net income from commercial and service investments to the Council's net revenue stream, to show the net financial impact on the authority of all non-treasury investments. Introducing this indicator also provides an indicator of the proportionality of non-treasury investments in comparison to the Council's overall net revenue income.
- 3.5 The Treasury Management Code similarly reflects the three identified investment types and requires authorities to include all investments, including non-treasury, in public reports on treasury management, and set investment strategies for each.
- 3.6 Within the Treasury Management Code there are two other significant changes. The first is a more formal requirement to include a "liability benchmark" within an authority's prudential indicators. The liability benchmark is intended to show, based on the existing approved capital and revenue commitments and the known debt obligations on an authority's balance sheet, the forecast net debt position over at least the next 10 years, but preferably longer. This should then inform decision making on further debt drawdowns, with the intention that any mismatches between future debt outstanding and the liability benchmark would be explained as part of the Capital or Treasury Management Strategies.
- 3.7 The Capital Strategy that formed part of the 2022/23 budget contained a version of the liability benchmark, shown at appendix A, and this will be reviewed to ensure it meets the requirements of the revised Code.

- 3.8 The second change relates to a strengthening of the requirements for training and qualifications. This includes the need to review the skills and knowledge of all staff involved within the treasury management function, and creates a requirement that the responsible officer, in the Council's case the Section 151 officer, must ensure that council members tasked with treasury management responsibilities, including scrutiny, have access to training relevant to their needs and responsibilities.
- 3.9 The changes required by both Codes are to be implemented by 2023/24, and so will form part of the next Capital and Treasury Management Strategies, which will form part of the budget in early 2023.
- 3.10 In the interim, it is proposed to provide training to members, including members of Audit Committee and Resources and Governance Scrutiny Committee as the two committees tasked with scrutinising the strategy and activity of the treasury management function, ahead of the next budget cycle and alongside the interim treasury management report for 2022/23.

#### **4 Implications for the City Council**

- 4.1 Within the Capital Strategy included in the budget papers to Executive in February it is clearly stated that the Council will not invest in capital schemes purely for yield. All investment decisions align to strategic priorities and are within the local authority boundaries (the only exception will potentially be for solar energy where there is a different economic footprint). The same report notes that the Council does have assets of a commercial nature on the balance sheet. These include long-term debtors, investments and investment properties.
- 4.2 All of the Council's historic long term debtors and investments have been made in line with strategic priorities and to support regeneration as opposed to being purely for yield. The debtors include loan finance provided to Manchester Airport Group, Manchester College and PFI prepayment. The investments are equity investments held including Manchester Airport, Destination Manchester which is the Council's investment in Manchester Central, Manchester Science Park and Matrix Homes. Investments are valued on an annual basis.
- 4.3 The balance sheet does include £468.5m of investment property. This investment is in property held solely to earn rentals and/or for capital appreciation. For the Council this includes land held for regeneration purposes and land held at Manchester Airport. Properties are held for regeneration purposes but as they provide a return they have to be shown as investment property. Investment properties are independently valued on an annual basis.
- 4.4 The revised Codes have a relatively strict definition of net income relating to service and commercial investments, and so work will be undertaken during the year to correctly identify the accepted income and costs to be included in this calculation.
- 4.5 As noted above, the Council currently includes a version of the liability benchmark within the Capital Strategy, and this will be reviewed to

ensure it is compliant with the Code, and to include a stronger explanation within the Strategy of what it is and how it should be viewed.

- 4.6 There are no particular concerns arising from the changes to the Prudential Code and other guidance as the Council has not pursued a strategy of commercial investment for yield to support the revenue budget. However, it does reinforce the need for strong governance and careful due diligence in all investment decisions. As resources tighten, affordability of prudential borrowing to support priorities will also be an issue.

## 5 Other Changes

### ***Levelling Up and Regeneration Bill***

- 5.1 In the Levelling Up and Regeneration Bill, published by Government in May, the Secretary of State would be given powers to issue a “risk mitigation” direction should a local authority issue a Section 114 notice, receive exceptional funding from Government or a capitalisation directive, or breach one of five “capital risk thresholds”.

- 5.2 The five thresholds are:

- The total of a local authority’s debt compared to the financial resources of the authority;
- The proportion of the total of a local authority’s capital assets which are held wholly or mainly to generate financial return;
- The proportion of the total of a local authority’s debt where the counterparty is not central government or another local authority;
- The amount of minimum revenue provision charged by a local authority to a revenue account in a financial year; and
- Any other metric specified by regulations made by the Secretary of State.

- 5.3 The risk mitigation directive could be either a limit in relation to the borrowing of money by the local authority, or a directive to the authority requiring it to act in a specific way. The intention of the Bill is to give the Secretary of State greater powers to intervene with local authorities that give cause for concern within the prudential framework.

### ***Changes to PWLB borrowing guidance***

- 5.4 The PWLB have also published changes to the guidance for applicants, further to the changes in borrowing conditions previously reported to members. The key change is that the Board will not advance funds to a local authority if it considers that there is more than a negligible risk of non-repayment. This risk could be assessed through the five risk thresholds noted above.

- 5.5 This is a significant change within the Prudential Framework, as traditionally the PWLB has been considered the lender of last resort for local authorities.

***Minimum Revenue Provision changes***

- 5.6 The Government is also currently consulting on changes to how minimum revenue provision (MRP) should be calculated. When a local authority borrows to fund a capital scheme, it is required to make an annual prudent provision towards the repayment of the debt. Guidance is published by the Government on the various calculation options.
- 5.7 It is for individual local authorities to decide what is a prudent provision and, for some, where capital loans have been provided to third parties, no MRP has been made as they anticipate that the loan will be fully repaid.
- 5.8 The consultation seeks to address this issue by requiring local authorities to make MRP on such activity but noting that there are circumstances where an alternative approach may be suitable. The outcome of the consultation will be reported to members once it is known.

***Expected Impact***

- 5.9 In the context of the Council's financial position, the changes noted above are not considered to have a material impact on future borrowing plans or MRP calculations. However, they do reinforce that the Prudential Framework has changed significantly to mitigate the risk of local authorities using debt to invest for yield, and ultimately to discourage such behaviour.

**6 Governance and Assurance**

- 6.1 Under the existing scheme of delegation, approved as part of the Treasury Management Strategy in February, approval of the annual strategy is the responsibility of Council, with Audit Committee responsible for reviewing activity at least twice a year and Resource and Governance Scrutiny Committee responsible for reviewing policies and procedures.
- 6.2 There are no proposed changes to this following the revision of the Codes.
- 6.3 However, as noted above, the Codes do strengthen the requirement that members tasked with scrutiny of the treasury management function have access to relevant training.
- 6.4 It is proposed that officers will work with the Council's treasury management advisors, Link, to deliver a training session on treasury management to members and will follow this with an officer-led training session on the Council's approach to treasury management, ahead of the strategy setting process for the 2023/24 financial year.

## **7 TM Advisors**

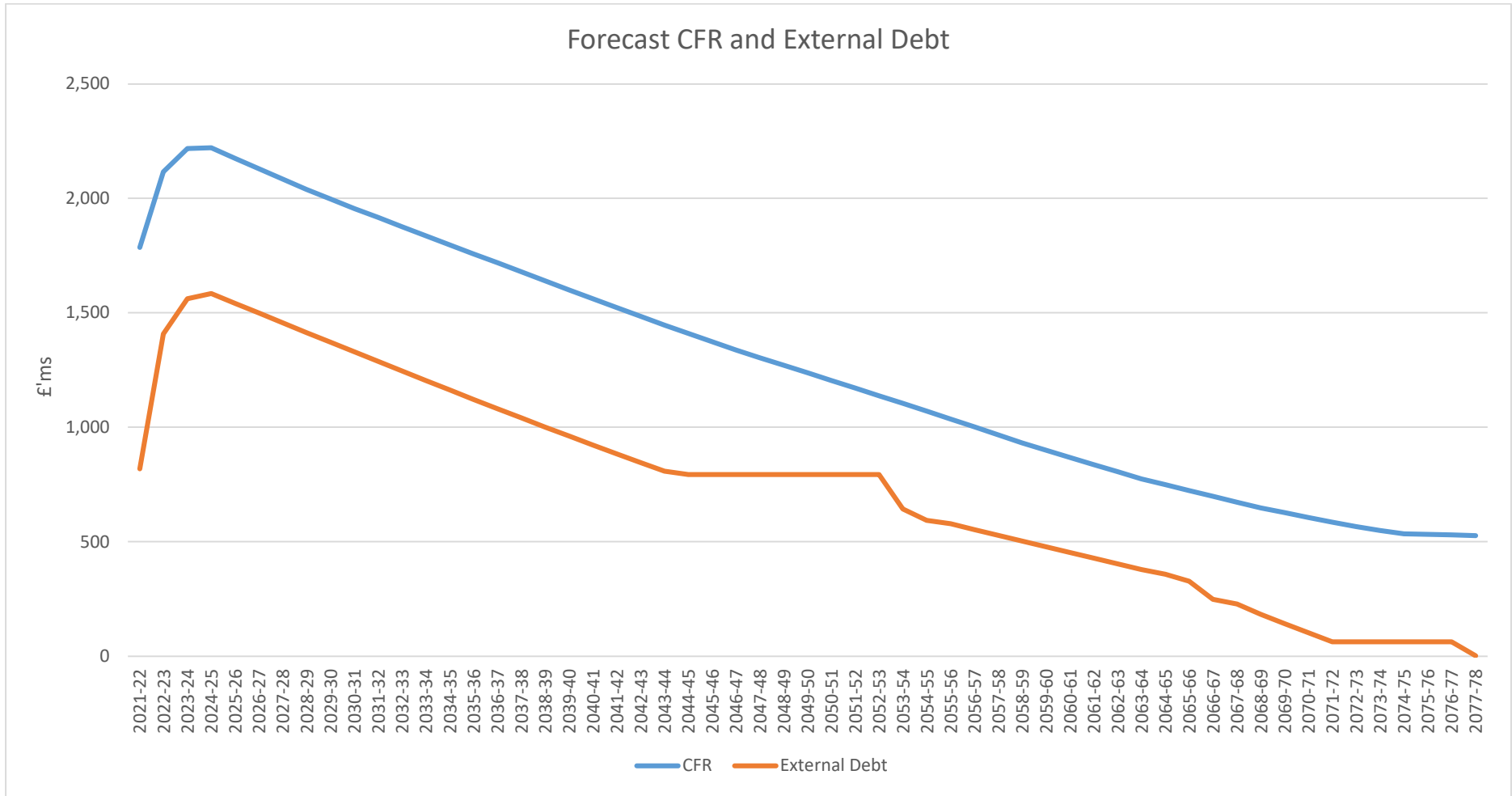
- 7.1 Under the scheme of delegation Audit Committee has responsibility to monitor the performance of the Treasury Management function which includes approving the selection of external service providers and agreeing terms of the appointment.
- 7.2 Whilst the Council's treasury management advisors could be considered an external service provider, historically the Audit Committee have not been asked to approve their appointment.
- 7.3 The delegation to Audit Committee is unusual and does not align with general procurement practices across the Council. The general practice is that procurement decisions are delegated to officers (principally Chief Officers, as per the Constitution) who are subsequently accountable for those decisions to members.
- 7.4 It is proposed that this function is delegated in the 2023/24 Treasury Management Strategy to the Deputy Chief Executive and City Treasurer, and report to members through the interim and outturn treasury management reports on any procurement relating to treasury management. This would require a change to the Council's constitution, and therefore it is proposed that it is recommended to Council to approve such changes to the constitution at the earliest opportunity to allow this to take effect.

## **8 Conclusion**

- 8.1 There have been a number of significant changes to the prudential framework, with further changes currently being consulted on. The changes highlight risks to local authority balance sheets and revenue budgets that will now be more explicit in reports to members and will aid decision making.
- 8.2 The Council has a strong balance sheet position, does not invest solely for yield, and has a prudent debt management strategy. This means that the changes are not expected to have a material impact on the authority.



## Appendix A – Capital Financing Requirement and Forecast External Debt



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**Manchester City Council  
Report for Information**

**Report to:** Audit Committee – 26 July 2022

**Subject:** Schools Assurance Report

**Report of:** Head of Internal Audit and Risk Management

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**Summary**

In accordance with Public Sector Internal Audit Standards, the Head of Audit and Risk Management must “establish and maintain a system to monitor the disposition of results communicated to management; and a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action”. For Manchester City Council this system includes reporting to directors and their management teams, Strategic Management Team, Executive Members and Audit Committee.

Audit Committee requested an update on school assurance in response to recent audit reviews and issues reported through the annual Audit Opinion for 2021/22.

**Recommendations**

Audit Committee is recommended to note the governance arrangements and oversight for schools and note the progress update on school audit recommendations

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**Wards Affected:** All

<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the City
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None
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<b>Equality, Diversity, and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments
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None
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<b>Manchester Strategy outcomes</b>	<b>Summary of how this report aligns to the OMS/Contribution to the Strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	An effective internal audit service is an integral part of the Council's governance arrangements. It helps to maintain and develop good governance and risk management and provides independent assurance over the effectiveness of the Council's systems of control. This contributes to being a well-run Council and indirectly to the achievement of organisational objectives and the OurManchester Strategy.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

**Financial Consequences** – Revenue = None

**Financial Consequences** – Capital = None

**Contact Officers:**

Carol Culley  
Deputy Chief Executive and City Treasurer  
234 3506  
E-mail carol.culley@manchester.gov.uk

Tom Powell  
Head of Audit and Risk Management  
234 5273  
E-mail tom.powell@manchester.gov.uk

Richard Thomas  
Deputy Head of Audit and Risk Management  
455 1019  
E-mail richard.thomas@manchester.gov.uk

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

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- Internal Audit assurance reports to Audit Committee
- Internal Audit Annual Opinion 2021-2022 – April 2022

## 1.0 Introduction

- 1.1 Audit Committee are provided with regular reports on audit activity and assurance opinions, supported by executive summaries detailing the scope of work undertaken and outcomes.
- 1.2. In April 2022, the Committee reviewed the annual opinion of the Head of Audit and Risk Management for the period April 2021 to March 2022 and noted several limited opinion ratings for Local Authority maintained schools, through the programme of School Financial Health Check audits.
- 1.3 The Committee requested more detail on this work and sought wider assurances as to the level of risk this presents, when considered with other sources of assurance in addition to the work of Internal Audit.
- 1.4 Specifically this report will:
- Outline key areas of the School Governance Framework, both external and internal to the City Council;
  - Clarify our approach to the audit of schools;
  - Inform Committee of the key themes and issues arising from school audits
  - Provide an update on implementation of school audit recommendations.

## 2.0 Background & Context

- 2.1 Manchester has a total of 185 Schools. 110 of these schools are maintained schools which means they have their budgets delegated from the Local Authority and must therefore comply with the Manchester Scheme for Financing Schools and the Schools Financial Regulations.
- 2.2 There are different types of maintained schools:
- Community - the Local Authority is the employer and funds are delegated from the Local Authority.
  - Voluntary Controlled - the Local Authority is the employer and funds are delegated from the Local Authority.
  - Voluntary Aided - the Local Authority is not the employer or land owner, but the funds are still delegated from the Local Authority.
- 2.3 The City Treasurer Section 151 officer has responsibility for financial oversight of schools with funds delegated through the Local Authority. Therefore, internal audit will seek assurance over the financial control arrangements at these schools.
- 2.4 The remaining 75 schools are classed as Free Schools and Academies; they have funds allocated directly from central government through the Education and Skills Funding Agency (ESFA). They have a totally separate financial accountability framework through to the ESFA with no statutory role for MCC; they are directly Accountable to the Secretary of State for Education.
- 2.5 Academies are set up as Charitable Trusts and their funding is provided to them directly by the ESFA. They must comply with the Academies Handbook and as

Trusts, must produce year-end financial accounts in line with the Charities Statement of Recommended Practice. They are required as part of the handbook to have annual external audit of their Annual Accounts and regular internal audit assurance over key risks and systems. Our only role as Internal Audit in relation to Academies and Free Schools is on a commercial basis; if they chose to buy audit services from us.

- 2.6 The government's Schools 'White Paper' is progressing through parliament. Government proposes to introduce a fully Trust led system with a single uniform regulatory approach with the intention of improving standards; through the growth of stronger Trusts and the establishment of new ones, including those established by Local Authorities.
- 2.7 By 2030 the government's ambition is that all children will benefit from being taught in a strong Multi-Academy Trust (MAT) or their school will have plans to join or form one. MATs will be on a trajectory for at least 7500 pupils or 10 schools (no maximum size). There will be 55 Education Investment Areas (EIAs) including Manchester to increase funding and support to areas in most need, plus extra funding for 24 of these areas considered a priority with the most entrenched underperformance.
- 2.8 The EIAs will have Area Based Commissioning approaches with a prospectus being produced in Autumn 2022 outlining priorities for MAT development in each area. The proposals also include transition to the National Funding Formula to set school budgets directly without local amendment.

### **3 External Schools Governance**

#### **OFSTED**

- 3.1 The Education Inspection Framework through the Office for Standards in Education (Ofsted) have responsibility for the inspection framework of all maintained schools and academies. They ensure that schools and other institutions are providing education services in England to an appropriate standard.
- 3.2 Inspection frequency depends on the findings of the previous Ofsted inspection, more specifically:
- New schools are usually inspected in first three years after opening,
  - Schools judged good or outstanding normally receive inspections approximately every three years,
  - Schools judged as requires improvement are inspected again within 30 months,
  - Schools judged as inadequate are placed in a category of concern and are issued with an Academy Order, the school will then become a sponsored academy.
- 3.3 The Areas covered in an Ofsted Inspection are as follows:
- Quality of Education

- Behaviour and attitudes
- Personal development
- Leadership and management.

3.4 As a Local Authority the outcomes of Ofsted inspections feed into the Council's school's assurance framework and adds to our own internal intelligence and assurances. A poor Ofsted inspection mainly highlights concerns regarding the provision of education; however, it can also indicate that financial control is also suboptimal.

#### **Other External Governance**

3.5 There are other regulatory bodies that oversee and moderate exams and assessments at primary and secondary schools, namely: -

- The Standards and Testing Agency who have oversight and complete moderation of primary school tests at key stage 1 and 2.
- The Office of Qualifications and Examination Regulation (Ofqual) regulates qualifications, examinations, and assessments in England.

### **4 Internal Schools Governance**

#### Financial Governance

- 4.1 The Scheme for Financing Schools sets out the financial relationship between MCC and the maintained schools in Manchester. It contains requirements relating to financial management and associated issues that are binding on both the Authority and Schools. This document is a requirement under Section 48 of the School's Standards and Framework Act 1998.
- 4.2 The Scheme stipulates the need for financial regulations and requires that schools manage and control their finances within rules set out in the School Financial Regulations. These regulations provide a framework for maintained schools to manage their financial affairs and are issued under S151 of the Local Government act 1972. Internal Audit confirm compliance or otherwise with these financial regulations during our Financial Health Check visits.
- 4.3 The Council are required to submit an annual return to the Department for Education entitled the Chief Financial Officer's Assurance Statement. This statement requires the CFO to confirm that they have systems of audit in place that provide adequate assurance over the standard of financial management and the regularity and propriety of spending.
- 4.4 The statement also includes a breakdown of the number and types of schools within the Local Authority that have completed the Schools Financial Value Standard (SFVS) return. Our financial health check and thematic audit activity is used to provide the necessary independent assurances to the City Treasurer to support signing the assurance statement.
- 4.5 The SFVS return is a mandatory self-assessment that all maintained Schools must complete and submit to their Local Authority annually. Manchester schools submit



these to Internal Audit, who combine the results and produce the CFO assurance statement. Audit also provide a summary of assurance opinion on school audits for the year, and completed documents are submitted to the Department for Education.

- 4.4 Additional assurances are provided through the requirement to operate a Schools Forum. There are clear national regulations which govern the composition, constitution, and procedures of this forum. It acts as a consultative and decision-making body where schools can put forward their views to the Council on matters such as the allocation and distribution of funding. The meetings are public, and all minutes are available on the Council's website.
- 4.5 The Council have clear financial reporting requirements for schools to provide the City Council with updates on their financial position which are set out in the school's Financial Regulations. There are quarterly returns required from schools which must be submitted through to the Education Finance team. Specifically;
- At the start of the year, three-year budget plans and assumptions must be clear,
  - Period 6 and period 9 monitoring during the year, detailing actual performance against budget, and
  - At year end schools must complete a return and provide details of their reserves.
- 4.6 Returns are reviewed by the schools Finance Team with attention being focused on any low balances being projected in year one and two. In these instances, the finance team contact the school to determine underlying causes and assess recovery options. Future returns are subject to additional scrutiny.
- 4.7 Low budget balances or schools in or at risk of falling into a deficit position are brought to the attention of the City Treasurer and Director of Education, and other senior corporate and education staff if necessary.

### **Schools Quality Assurance**

- 4.8 The Council has developed a Schools Quality Assurance Protocol to promote and secure continuous improvement, using a process of self-evaluation validated by external quality assurance professionals, appropriate challenge and support when required.
- 4.9 Every maintained school is provided with a funded quality assurance professional to undertake an annual external review, produce a report and associated advice and guidance. These quality assurance professionals are not employed by the Council but are commissioned through a framework procured by the Council. This report is sent to the Head Teacher and Governing Body and shared with the Senior Schools Quality Assurance (SSQA) teams. The report highlights actions to be taken forward by Governors. This offer is also extended to all academies in the city and is taken up by the vast majority.
- 4.10 Where challenges are identified which highlight a school would benefit from additional support the Headteacher/Principal and Chair of Governors/CEO of the

Trust are invited to attend a Support and Challenge Board meeting with the Director of Education to agree a plan of support.

- 4.11 There are five Senior School Quality Assurance Officers (SSQAs) who all have an allocation of schools usually on a geographical basis. These officers are the key contacts for each school with the Council. They maintain an overview of their schools and broker additional support when required.
- 4.12 The Quality Assurance Board is a Council Board to review data, inspection outcomes and information on school performance and improvement led by the Director of Education.
- 4.13 Schools Assurance Meetings – this is a Council group which brings together a range of Council departments including SSQAs, Finance, Internal Audit and HR to discuss schools at risk or with concerns based on local intelligence to agree suitable support and challenge. These meetings are used to agree the best approach for addressing these wider issues and engaging with the schools.

## **5 Schools – the internal audit approach**

- 5.1 The main school audits completed are the school Financial Health Check audits to provide assurance to the City Treasurer Section 151 Officer over the key financial controls operating therein. In previous years we have planned to complete a minimum of ten of these audits per annum, with a combination of primary, special, and secondary schools selected.
- 5.2 Audit focuses on the key financial controls and risks in the following areas: -
- The allocation of financial roles and responsibilities – we review the Scheme of Financial Delegation and Financial Procedures to confirm appropriate coverage of core financial systems.
  - Long term financial planning, budget approval and monitoring and recovery planning.
  - Key financial reconciliations – bank, payroll, and income reconciliations, including supporting documentation, segregation of duties, review and oversight from the Head Teacher.
  - Expenditure, specifically purchasing and payroll. – we sample test purchases, including high value purchases that should have quotes and tenders, and test a sample of payroll starter and leavers and any payroll changes or discrepancies.
  - Income collection and recording. – if we identify cash income we will test cash receipting, counting, and banking. Most schools now operate cashless systems, with minor exceptions like school dinner money. We also test income from any school property lettings.
- 5.5 We also complete other thematic school audits, prioritised on risk exposure. These are usually completed in an area where the Council has a statutory duty (monitoring school attendance, off rolling) or where we think there are reputational risks to schools, safeguarding or financial risks (background personnel security checks, a cyber thematic audit on the current years plan.)

- 5.6 The School Assurance Meeting is a key forum where common risks and issues are shared and is a valuable source of intelligence for internal audit in selecting the highest priority schools to test.
- 5.7 Our work is risk based and focused on reviews that will produce the maximum benefit for the school and by association, the Council. Because of this selection criteria, the likelihood of health checks finding instances of non-compliance is proportionally high, as opposed to taking a purely random sample. It follows therefore, that most audit assurance opinions are likely to be Limited / Reasonable, as opposed to Substantial / Reasonable.
- 5.8 Some of the criteria that helps us select schools for health checks are often discussed at the Schools Assurance Meeting, and include: -
- High staff turnover or new Head Teacher/ new Business Manager,
  - School operating at a deficit or in some cases excessive surplus,
  - Intelligence gathered through an investigation / Whistleblowing,
  - Where educational concerns have been raised which could suggest the need to assure sound financial management, or
  - Significant time has elapsed since we last audited the school.
- 5.9 Once we have identified the schools to review and the block of resource is approved by the Audit Committee, we schedule these throughout the year and issue terms of reference to Head Teachers and copy to relevant Council officers.
- 5.10 We continue to link our work where possible to the SFVS. We will review the schools SFVS submission as part of an audit and if our findings are inconsistent with the outcome of the self-assessment, we will highlight this in the school's report. If a school does not submit their return or if there were any concerns, we would schedule the school for an audit.

## **6 Key Audit issues and themes**

- 6.1 The key concerns coming out of our school financial health checks over the last 12 months are as follows:
- Higher numbers of critical and significant recommendations being made in reports than previously.
  - Recommendations being made where interim controls implemented during the pandemic lockdowns have not returned to business as usual.
  - Most of our high-level recommendations relate to a lack of compliance with key controls, rather than a lack of actual controls.
- 6.2 The main themes coming out of recent audits are as follows:
- Non-compliance with agreed purchasing procedures. This includes examples of purchases being made without orders being raised, improper / retrospective authorisation, and poor controls around debit card purchases.
  - Higher value purchases not being supported by quotations and tenders.
  - Issues with separation of duties across key financial controls.

- Reduced management oversight of key reconciliation than we have previously seen.

## 7 Recommendation Implementation Update

- 7.1 Recent follow up audits have been completed in all 10 Schools who received limited audit assurance opinions since the start of the 2018/19 audit year. There was a total of 61 critical and significant risk recommendations made through auditing these schools.
- 7.2 We can confirm that 29 (51%) of these recommendations had been fully implemented with another nine (16%) being at least partially implemented. This represents a considerable reduction in the risk exposure across the schools we have reviewed, with positive action being taken for 67% of the recommendations made. See **Appendix 1** for more detail.
- 7.3 There is still scope for further action to be taken to reduce financial risk exposure. We have communicated with each school and left clear instructions as to our requirements and the need to implement recommendations in a timely manner. We will continue to monitor the progress of schools and undertake follow up audits as required.
- 7.4 Good progress can be reported at several schools; Benchill, Lily Lane, Sacred Heart, St Margarets, All Saints Newton Heath, and St Phillips have seen a significant reduction in the exposure to risk. We are concerned that there are three schools where there is slow, or no progress being made. We have written to the Head Teachers and will follow up with site visits to each school, providing support and guidance.
- 7.5 If in any instances we see further evidence of a lack of progress we will ensure that these concerns are raised at the Schools Assurance meeting to enable a discussion and agreement for a Council wide approach to support the school to re-establish the desired levels of control.

## 8 Conclusion

- 8.1 This paper describes the wider governance arrangements for local schools, and that Internal Audit is part of a broader assurance framework. Although we are unable to audit every school, every year, we apply a sound methodology to choose our sample, based on strong intelligence.
- 8.2 There is no doubt that the pandemic has had a detrimental impact on financial controls and disrupted business as usual processes, coupled with a shortage of capacity and capability in pivotal business management roles. We are aware of systemic issues within schools and the Council, working with external partners and support agencies like One Education, the Director of Education and audit can drive step changes through more co-ordinated and targeted support.
- 8.3 We are confident that through the continuing provision of support and guidance, as audit recommendations are implemented and become operational, we will see the frequency of limited opinion audits fall and financial control will return to normal.

## 9 Appendices

- Appendix 1 - Recommendations and Risk Exposure (school specific).

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## Appendix 1 - Recommendations and Exposure to Risk for Schools with Limited Assurance Opinions

Key: ● Critical and Significant Risks ● Moderate and Minor Risks

\*We are not following up on the moderate or minor recommendations at all Schools, we have only considered moderate and minor recommendations when Schools share the evidence alongside evidence for the higher risk recommendations.

Recommendations Made by Audit – Implementation Status																	
Audit	Total Made		Outstanding		Partially Implemented		Fully Implemented / Mitigated		Superseded		Risk Rejected / Referred to Management		Not Yet Due		% Fully Implemented	Assurance Over Exposure to Risk	
Risk Category	●●	●●	●●	●●	●●	●●	●●	●●	●●	●●	●●	●●	●●	●●	●●		
<b>Schools</b>																	
<b>2018/2019</b>																	
Benchill Primary School	6	4				1	6	3								100%	Limited ●
Lily Lane Primary School	7	1			3	1	4									57%	Limited ●
Sacred Heart RC Primary	4	4					4									100%	Limited ●
St Margaret's C of E Primary School	6	5	2				4									66%	Limited ●
<b>2019/2020</b>																	
St Bernard's Primary School	8	2	8													0%	Limited ●
<b>2020/2021</b>																	
Martenscroft Nursery School and Children's Centre	7	2	3		1		2				1					29%	Limited ●
Collyhurst Nursery School and Children's Centre	4	4	4													0%	Limited ●
The Divine Mercy RC Primary School	3	5											3			n/a	Limited ●
All Saints Newton Heath Primary School	9	3			2	2	6	1			1					75%	Limited ●
St Philips Primary School	7	4		1	3	2	4	1								57%	Limited ●

Totals	61	17	9	30	0	2	3	51% (29/56)
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Please note we also completed an audit of St Matthews RC High School in 2021 and gave a limited assurance opinion, however they became an Academy soon after the final report was issued, and as a non-maintained school they do not fall under the remit of the City Council. We shared the final report with Governors and the Senior Management at the school, and this will be picked up within their new financial management framework as an Academy.

More detail of the work performed at each school is provided below.

**Benchill Primary School:**

Limited Assurance Opinion report issued in February 2020 with a formal follow up of implementation of recommendations completed in March 2021. This reported a significant reduction of the exposure to risk with all the significant and higher risk recommendations being fully implemented. There remained one moderate risk recommendation that was partially implemented, relating to the need for the Head Teacher to sign over time claim forms in line with the Scheme of Delegation, at the time of the follow up this was being completed by the Head of School not the Head Teacher. We have received no further updates on this audit.

**Lilly Lane Primary:**

Four out of seven, significant or higher risk recommendations have been fully implemented with the remaining three being classed as partially implemented. The level of exposure to risk has been significantly reduced with the strengthening of arrangements over bank reconciliations, payroll reconciliations and improvements made to the Scheme of Financial Delegation and Financial Procedures by the Business Manager. Although we were generally satisfied with the controls in place over purchasing, high value transactions and debit card use in our sample showed areas of non-compliance, so we are unable to sign these off as complete. The Business Manager is engaged and focused on compliance with controls and challenges poor practices when necessary. We will select another sample of purchases to test during our next follow up work in September 2022.

**Sacred Heart RC Primary School:**

Of the four recommendations made we have been able to confirm that all the recommendations have been implemented so the exposure to risk has been significantly reduced.

**St Margarets C of E Primary School:**

We first followed up implementation of the recommendations made in 2021 where we confirmed two of the recommendations were implemented. Our current follow up work has confirmed that a further two recommendations have been implemented with two remaining outstanding. The recommendations outstanding were both rated as significant risk and relate to the following: -

- The need to update the Scheme of Delegation and the operational Financial Procedural Manual with clear thresholds and approval procedures for budget changes above the Head Teacher's limit.



- Amending the Governing Body reporting timetable to ensure the development of the budget and school Development Plan are aligned. At the time of our review these had not been progressed by the school since our 2021 follow up.

#### **St Bernards Primary School:**

When we contacted the school's business manager, we were told they had resourcing issues and therefore were unable to provide a response on implementation of audit recommendations. We have subsequently contacted the school to establish when they may have the resources to allow them to evidence progress with recommendations but have received no further response or engagement and no evidence of progress has been received. We will share these issues with the schools SSQA to seek their support in obtaining an update and failing an update to arrange a visit to St Bernard's in September.

#### **Martenscroft Nursery and Children's Centre:**

We have been able to confirm that two critical recommendations have been implemented and one is partially implemented. One significant recommendation was rejected by management at the time of our review. Whilst the school has sent us evidence for the remaining recommendations (one critical and two significant) to demonstrate implementation, we do not consider this sufficient to demonstrate full implementation. We will arrange a visit to Martenscroft in September to seek further assurances over progress.

#### **Collyhurst Nursery and Children's Centre:**

In January 2022, Greater Manchester Academies Trust (GMAT) leadership stepped in to support and oversee Collyhurst Nursery and Children's Centre as they had no Head Teacher or Finance Manager. GMAT were not aware of our audit report until we contacted them recently as part of our follow up review. We have agreed with GMAT that they will now provide regular updates with regards to recommendations, but these will not be implemented by the time this report is presented to Audit Committee. We will have regular meetings to discuss the progress and if these are not implemented then we will review these as part of our schools follow up work in September 2022.

#### **The Devine Mercy RC Primary School:**

This report has only just been issued as a final report and therefore the recommendations are not yet due for implementation. We will seek assurances over progress with implementing their recommendations when we complete our next schools follow up work in September 2022.

#### **All Saints Newton Heath Primary School:**

Our follow up work has confirmed that six of nine high risk recommendations have been fully implemented so a significant reduction in the exposure to risk can be seen. There has been progress made in reducing the exposure to risk in the remaining higher risk recommendations. One of the partially implemented recommendations relates to the need to build improved separation of duties into the school's financial systems. Whilst the Business Manager was able to describe some of the changes made, the Scheme of Delegation had not been updated to reflect this. The other partially implemented recommendation relates to compliance with agreed purchasing controls. We selected a small sample of purchases and confirmed that overall compliance was good, however the invoices had not been certified for payment and we therefore highlighted the need for this control to be introduced for all purchases to fully reduce the exposure to risk. All Saints school are clear on the actions needed to fully address the remaining recommendations and we will assess progress during our next follow up work.

### **St Phillips Primary School:**

Four of seven high risk recommendations have been fully implemented with progress also being made towards implementation on the remaining three. There has been a significant reduction in the exposure to risk overall. The partially implemented recommendations are in the following areas:

- A critical risk recommendation in relation to building more separation of duties into key financial controls to reduce over reliance on the school's Business Manager. The Business Manager described and showed examples of action taken to introduce more separation of duties into the school's financial systems, however this separation of duties had yet to be formally defined in the Scheme of Financial Delegation. The scheme needs to be updated with revised arrangements to allow full implementation of this recommendation.
- We recommended the school's Development Plan be developed into a multi-year plan that had clear links to the budget. The Business Manager outlined how work had started on this but that it had yet to be fully developed.
- We raised an issue in relation to use of the school debit card and the need to ensure appropriate requisition, approval and receipt of items purchased along with demonstration of appropriate separation of duties. Our testing of a small sample demonstrated better compliance with controls but not full compliance, so we have concluded its partially implemented.

Overall, however we can conclude that there has been a significant reduction in the overall exposure to risk at St Phillips and are hopeful that we can sign the remaining recommendations off as fully implemented when we follow up implementation again in September 2022.

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee – 26 July 2022

**Subject:** Work Programme and Recommendations Monitor

**Report of:** Governance and Scrutiny Support Unit

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**Summary**

This report provides the following information:

- Recommendations Monitor
- Items for information
- The draft Work Programme

**Recommendation**

The Committee is invited to discuss the information provided and agree any changes to the work programme that are necessary.

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**Wards Affected:** All

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**Contact Officers:**

Name: Donna Barnes  
Position: Governance Officer  
Telephone: 0161 234 3037  
E-mail: donna.barnes@manchester.gov.uk

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

None

## 1. Monitoring Previous Audit Committee Recommendations

This section of the report contains recommendations made by the Committee and responses to them indicating whether the recommendation will be implemented, and if it will be, how this will be done.

Date	Item	Recommendation	Response	Contact Officer
12 April 2022	AC/22/11 (Annual Assurance Opinion 2020/21)	To agree that the next scheduled update on former Northwards properties shall include information on the agreed action plan for the management of void and empty properties, including the management of lost rental income.	Added to the update due July 2022 (Internal Audit Assurance Q1)	Head of Audit and Risk Management
14 June 2022	(Work Programme and Recommendations Monitor)	To agree that the Annual Counter Fraud report (Part B) shall include information on Whistleblowing Policy	Added to the scope of the report scheduled for September 2022	Head of Audit and Risk Management

**Audit Committee  
Work Programme – July 2022**

**Meeting Date: 26 July 2022,10am (Agenda published: 18 July 2022)**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
Updated draft Statement of Accounts 2020/21	To receive the updated draft statement of accounts for the 2020/21 municipal year.	Councillor Akbar	The Deputy Chief Executive and City Treasurer
External Audit Update (2021/22)	To receive an update of external audit activity.	Councillor Akbar	Mazars (External Auditors)
Treasury Management Outturn report 2021/22	To report the Treasury Management activities of the Council for the 2020/21 municipal year.	Councillor Akbar	The Deputy Chief Executive and City Treasurer
Internal Audit Assurance (Q1)	To receive a report which summarises summary audit work undertaken and opinions issued quarter 1 of the municipal year.  <i>To include information on the update on former Northwards properties on the agreed action plan for the management of void and empty properties, including the management of lost rental income. (AC/22/11)</i>	Councillor Akbar	The Head of Audit and Risk Management
Outstanding Audit Recommendations (Q1)	To receive a summary of the current implementation position	Councillor Akbar	The Head of Audit and Risk Management

	and arrangements for monitoring and reporting internal and external audit recommendations for Quarter 1, in accordance with Public Sector Internal Audit Standards		
Prudential Code	To consider and comment on the update report on the review of the Code. To include an update on the approach to the selection of external service providers for Treasury Management as noted in minute AC/21/28	Councillor Akbar	Deputy Chief Executive and City Treasurer/Deputy City Treasurer
Risk Review: Schools Assurance	To receive a report that outlines the Local Authority's education and finance colleagues' relationship with the maintained schools sector, in terms of management of compliance, oversight and internal control in the maintained schools sector.	Councillor Akbar	The Head of Audit and Risk Management
Work Programme and Recommendations Monitor	To receive the Committee's Work Programme and Recommendations Monitor		Governance and Scrutiny Support Unit

**Meeting Date: 27 September 2022,10am (Agenda published: 19 September 2022)**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
Financial Outturn report 2021/22	To receive a report which sets out the final outturn position for the Council's revenue budget in 2020/21	Councillor Akbar	The Deputy Chief Executive and City Treasurer

Annual Review of Audit Committee's Terms of Reference	To review the Audit Committee's Terms of Reference	Councillor Akbar	The Head of Audit and Risk Management
External Audit Update	To receive an update of external audit activity.		Mazars (External Auditors)
Risk Review: TBC	Standing agenda item for any items requested by the Audit Committee to support the Committee in discharging its terms of reference – scope TBC		
Annual Counter Fraud (Part B)	To receive a report which provides a summary of the anti-fraud arrangements and investigation work undertaken during 2021/22, with a particular focus on the work delivered by Internal Audit.  To include discussion of the Whistleblowing policy (AC/22/13)	Councillor Akbar	The Head of Audit and Risk Management
Work Programme and Recommendations Monitor	To receive the Committee's Work Programme and Recommendations Monitor		Governance and Scrutiny Support Unit

**Meeting Date: 18 October 2022, 10am (Agenda published: 10 October 2022)**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
Internal Audit Assurance (Q2)	To receive a report which summarises summary audit work undertaken and opinions issued Quarter 2 of the municipal year	Councillor Akbar	The Head of Audit and Risk Management
Outstanding Audit Recommendations (Q2)	To receive a summary of the current implementation position and arrangements for monitoring and reporting internal and external audit recommendations for Quarter 32, in accordance with Public Sector Internal Audit Standards	Councillor Akbar	The Head of Audit and Risk Management
External Audit Update	To receive a progress report on external audit activity.		Mazars (External Auditors)

Review of Internal Audit and Quality Assurance Improvement programme (QAIP)	To receive a report on the internal audit quality assurance programme and actions being taken to assure and develop the internal audit service.	Councillor Akbar	The Head of Audit and Risk Management
Risk Review: TBC	Standing agenda item for any items requested by the Audit Committee to support the Committee in discharging its terms of reference – scope TBC		
Work Programme and Recommendations Monitor	To receive the Committee's Work Programme and Recommendations Monitor		Governance and Scrutiny Support Unit

**Meeting Date: 29 November 2022, 10am (Agenda published: 21 November 2022)**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
Final Statement of Accounts 2021/22	To receive the final Statement of Accounts 2021/22	Councillor Akbar	The Deputy Chief Executive and City Treasurer
External Audit Completion	To receive the report of the External Auditors (Mazars) – this is subject to ongoing review to ensure the audit of the accounts can be completed in full and may be necessary to report the completion of the audit to a later meeting of the Audit Committee		Mazars (External Auditors)
Letters from those charged with Governance	To note letters from the Council to the External Audit in response to standard questions to management and the Chair of the Audit Committee as part of the audit completion process	Councillor Akbar	The Deputy Chief Executive and City Treasurer
Treasury Management Interim Update	To report the Treasury Management activities of the Council during the first six months of 2022-23.	Councillor Akbar	The Deputy Chief Executive and City Treasurer



Risk Review: TBC	Standing agenda item for any items requested by the Audit Committee to support the Committee in discharging its terms of reference – scope TBC		
Work Programme and Recommendations Monitor	To receive the Committee's Work Programme and Recommendations Monitor		Governance and Scrutiny Support Unit

**Meeting Date: 13 December 2022**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
This meeting date is reserved for the Committee's annual training event			

**Meeting Date: 17 January 2023,10am (Agenda published: 9 January 2023)**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
Internal Audit Assurance (Q3)	To receive a report which summarises summary audit work undertaken and opinions issued quarter 3 of the municipal year.	Councillor Akbar	The Head of Audit and Risk Management
Outstanding Audit Recommendations (Q3)	To receive a summary of the current implementation position and arrangements for monitoring and reporting internal and external audit recommendations for Quarter 3, in accordance with Public Sector Internal Audit Standards.	Councillor Akbar	The Head of Audit and Risk Management
Audit Strategy Memorandum / External Audit Plan	To receive the Audit Strategy memorandum / external audit plan.	Councillor Akbar	The Head of Audit and Risk Management
Register of Significant Partnerships (6 monthly review)	To receive the 6 monthly review on partnerships where a 'Reasonable' or 'Limited' rating was recorded.	Councillor Akbar	The Deputy Chief Executive and City Treasurer
Risk Review: TBC	Standing agenda item for any items requested by the Audit Committee to support the Committee in discharging its terms of reference – scope TBC		
Work Programme and Recommendations Monitor	To receive the Committee's Work Programme and Recommendations Monitor		Governance and Scrutiny Support Unit

**Meeting Date: 14 March 2023,10am (Agenda published: 6 March 2023)**

Item	Purpose	Executive Member	Strategic Director/ Lead Officer
Accounting concepts	To receive a report that discusses the accounting	Councillor	The Deputy Chief Executive

and policies critical accounting judgements and key sources of estimation uncertainty	concepts and policies, critical accounting judgements and key sources of estimation uncertainty that will be used in preparing the 2022/23 annual accounts	Akbar	and City Treasurer
Annual Internal Audit Plan	To provide the Internal Audit Strategy and annual internal audit work plan for Audit Committee consideration in line with Public Sector Internal Audit Standards.	Councillor Akbar	The Head of Audit and Risk Management
External Audit Update	To receive a report on the progress of the council's external audit.	Councillor Akbar	Mazars (External Auditors)
Risk Review: TBC	Standing agenda item for any items requested by the Audit Committee to support the Committee in discharging its terms of reference – scope TBC		TBC
Work Programme and Recommendations Monitor	To receive the Committee's Work Programme and Recommendations Monitor		Governance and Scrutiny Support Unit

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