

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee - 5 November 2018

**Subject:** Internal Audit Assurance Report 2018/2019

**Report of:** City Treasurer / 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 a summary of the audit work undertaken and opinions issued in the period April to September 2018.

**Recommendations**

Members are requested to consider and comment on the Internal Audit Assurance Progress Report to 30 September 2018.

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**Wards Affected:** All

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

Documents used in the development of the assurance report include:

- Internal Audit Plan 2018/19 (June 2018)
- Internal Audit Assurance Report (July 2018)
- Outstanding Audit Recommendations Report (July 2018)

## Internal Audit Assurance Report April to September 2018

### 1 Introduction

- 1.1 This report provides a summary of the work of the Internal Audit Section from April to September 2018 including progress toward delivery of the annual audit plan, a summary of assurance opinions on completed audits and a summary position on the implementation of Internal Audit recommendations. The opinions and statistics are shared with Directorate senior managers for discussion; to agree actions and are used to inform an overall annual assurance opinion.

### 2. Audit Programme Delivery

- 2.1 The following table is a summary of the outturn against the audit plan to date.

Audit Status	2017/18 Brought Forward	2018/19 Audit Plan Outputs	Additional Items
Final Report	15	26	0
Draft Report	0	3	0
Fieldwork Completed	0	2	0
Fieldwork Started	0	9	0
Planning	0	10	2
Not started	0	48	0
Cancelled / Deferred	0	3	0
<b>Totals</b>	<b>15</b>	<b>101</b>	<b>2</b>

- 2.2 Outputs in the above table include audit reports, management letters and advice and guidance as well as support to management on service improvement. The number of total expected outputs has risen as the blocks of audit time assigned to areas of risk including the Our Town Hall Project and Contract Monitoring have been broken down to assignment level in line with plans.
- 2.3 The table does not include investigations or counter fraud casework activity; the key focus of which is summarised in section nine. The analysis also excludes most of the advice and guidance provided to the business through involvement in working groups and projects across the Council as these are not captured in formal reports.

- 2.4 It is proposed that the following audits are deferred from the audit plan following risk assessment. The first is a follow up audit on Software Licensing issued in July 2018. Moving this to quarter one of 2019/20 will enable a review to be taken after the deadline for the agreed mitigation actions. The second audit is the Public Contracts Regulations Compliance audit which is based on current resource availability for the work. In addition there is a proposal to replace the planned audit of Manchester Support for Independent Living (MSIL) with a new audit of Deprivation of Liberties Safeguarding (“DOLS”) as noted below. In addition a second audit of the Factory to support development has been agreed with the Senior Responsible Officer for the project and has been added to the plan as additional work.
- 2.5 The sections below describe the progress made against the agreed annual audit plan in this quarter. The status of the annual audit plan in terms of progress is shown at Appendix One for completeness.

### **3 Adult Services**

- 3.1 In 2017/18 Internal Audit issued our audit reports for the audit of Transition to Adulthood, the Disability Supported Accommodation Services Quality Assurance Framework, Cash Handling by Appointee Support Officers and Homecare Services where we provided limited assurances for each audit. We have agreed to formally follow-up progress made with reducing risks in these areas and will continue to report on the implementation of agreed actions. A report was provided to the September Audit Committee by the Director of Adults Services which confirmed good progress had been made in addressing the issues raised in these reports. We plan to complete the agreed formal follow up work to validate progress made during quarter three.
- 3.2 Planning has been undertaken for a proposed audit of Mental Health casework compliance in respect of the Greater Manchester Mental Health Trust. This is intended to focus on assurances required by the Council in respect of delegated statutory social care functions. Liaison is currently taking place with the Trust and their internal auditors to confirm the practical details required to complete this work. This work also links to the ongoing development of arrangements to ensure appropriate audit coverage across Manchester Health and Care Commissioning and Manchester Local Care Organisation functions with the respective senior management and internal auditors from Manchester CCG and Manchester Foundation Trust which will be a key focus for Internal Audit in quarter three.
- 3.3 Management have carried out a risk assessment in Adult Services and requested that the proposed audit of MSIL is replaced with an audit of the Deprivation of Liberties Safeguarding. We have agreed that the risk assessment supports this proposal and will scope the new work accordingly. Consideration is to be given to when the delayed MSIL audit can be carried out based on resourcing and currently would be done in quarter one of 2019/20 audit programme.

## **4 Children's Services**

- 4.1 The MASH follow up audit confirmed that three of the five higher risk recommendations have been implemented however, despite positive progress, work remains to be done in relation to consent and the overall timeliness of the process. For consent it is proposed that quality assurance audit tools will be updated by management to ensure that assurance work undertaken by managers supports a consistent approach and will allow challenge of non-compliance. This will be supported with descriptors and basic training for the staff involved in undertaking these checks. For timeliness there is a need for more assurance that high risk cases are completed in line with the 24 hours deadlines. Internal Audit agreed that interim measures would be used by management to carry out dip sampling and reporting outcomes via the performance dashboard as the current Micare system cannot provide for this specific assurance check. We support management in that a long term solution should be sought within the development of the new Liquidlogic social care system which is currently due for implementation in spring of 2019.
- 4.2 Internal Audit provided a limited assurance for Early Years 30 hours funding based on concerns around the accuracy and robustness of the payments process including overpayments; the administrative burden caused by the manual nature of processes across the system (which significantly increased the risk of errors); and the lack of training that had been provided to staff delivering the service. We are satisfied with the management response to this and agreed recommendations which should significantly strengthen control.
- 4.3 A follow up audit assessed progress in the implementation of recommendations made in the Troubled Families approach audit report issued in June 2018. One of the two of recommendations to establish a means of tracking performance and numbers of cases (Troubled Families Attachments) had been fully implemented. The other, in regards to management reporting on impact and achievement of successful outcomes, had been partially implemented, as there was still no mechanism to monitor the number of families successfully engaged (Attachments that progress to a planned closure) and further work is required.
- 4.4 The Deputy Director Children's Services attended Audit Committee in September to provide an update on progress toward implementation of a recommendation in the NW Foster Care Contract Monitoring system. The aim is to improve the risk evaluation process used to monitor service and costs of provision. A process including templates have now been developed to support this and internal audit will monitor for evidence of implementation to address the risk.

## **5 Education and Schools**

- 5.1 The traded Data Protection Officer offer to schools was launched on 1 September as planned and this will be managed by the Internal Audit service as a specific service, in collaboration with Bolton Council. Around 100 schools already have committed to the service across Manchester and Bolton. This

has taken some time in quarter two in finalising contract arrangements; developing model documentation; progressing recruitment for three data assurance and senior data assurance officers; and in completing initial meetings with each school to launch the service. The team has dealt with a range of enquiries and issues being raised by schools and the finalisation of recruitment of new staff to deliver this work and commence a programme of assurance visits to schools is a key priority for quarter three.

- 5.2 The cash in schools audit continued with further unannounced visits which will be undertaken each term on a random sample basis. An interim opinion has been issued in a report summarising findings from these visits and an overall opinion will be given during quarter four. Learning will be shared with Children's Services Finance and with all schools as part of the final report. We included a number of schools in the testing who confirmed they operated cashless systems in order to validate those arrangements which are considered more secure. Nine cashless schools were tested and seven were provided with a full assurance opinion and two received a substantial opinion as there were only minor improvements to be made. We also visited two schools who processed cash and provided them both with substantial assurance opinions. Eight more schools will be visited during the autumn term (quarter three) and we will issue a further interim report in December summarising the outcome of these visits
- 5.3 We are in the process of evaluation of the key findings from our procurement in schools audit in 16 schools. Following a similar approach as the cash audit we have provided each school with an individual assurance opinion and recommendations and advice where appropriate. We provided a range of level of assurance opinion across the schools in our sample with a fairly equal split between substantial, moderate and limited assurance opinions and made local recommendations to support improvement during the work. We are now working on the overall summary report to enable learning to be shared amongst all schools, the Council, clerking providers and the Diocese of Salford and Shrewsbury.

## **6 Corporate Core**

- 6.1 An audit of purchase cards was completed. Controls over the use of cards were examined and moderate assurance given in relation to the appropriateness of spend, pre-approval and post-spend reconciliation processes. Recommendations were made with the aim of improving guidance, both generally and specifically in relation to provision of hospitality from Council officers, and to improve compliance with existing controls over submission and review of reconciliations which support spend on purchase cards. Positive assurance was obtained as the audit did not identify any significant concerns with the overall validity or appropriateness of spend.
- 6.2 HROD carried out a review of compliance with the corporate Expenses Policy, following up on Internal Audit's work in this area in 2017/18. The results of this review broadly corroborated the previous findings in terms of levels of non-compliance and the reasons for these. The key issues noted from this were

about the use of expenses processes to reimburse staff for spend that strictly should have been made through purchase orders, payment cards, corporate travel arrangements or other existing processes. As with purchase cards this work did not identify particular concerns over the appropriateness of spend. This work will be used to support Internal Audit and the business in assessing the level of risk in this area and options for improved compliance.

- 6.3 The quarter one payroll review was reported and the fieldwork for quarter two was completed in September. We are awaiting feedback from individual managers in relation to specific anomalous claims identified where further explanations are required. The findings do not indicate any systemic weakness in the operation of controls within the process. Further work will be carried out as planned for quarter three and four.
- 6.4 The Service carried out a number grant certifications including Growth Deal; Carbon Reduction Commitment; URBACT Smart Cities; and the Factory. No major issues were found and each grant was certified. Further work on grant certifications will be carried out in quarter three and four based on set timescales.
- 6.5 Advice and guidance was provided to the project team in relation to our understanding of progress with the Liquidlogic implementation project. Internal Audit was able to endorse the Programme Manager's proposed approach for managing the outcomes of the second phase of data migration/user acceptance testing which is taking place now.
- 6.6 Internal Audit provided advice and support to the finance staff working on the design of systems to support the transfer of leaving care functions from Barnardo's to the Council on 1 October 2018. This involved an assessment of risk within the payment system for young people including security and safe cash handling. We will remain engaged with the team to assess and support how these controls are adopted in the short term and any opportunity for improvements. The Director of Children's Services has also requested some further Internal Audit assurance in this area which we will seek to accommodate as part of ongoing audit risk assessment and planning.
- 6.7 Software licensing was finalised in the quarter and provided limited assurance overall. We identified areas for improvement primarily in governance arrangements, but also in understanding the ICT application environment, and addressing identified areas of non-compliance. In particular the audit noted that current software licensing management capability and resource levels were insufficient, considering the amount of work required to achieve a baseline software licensing compliance position. The audit recommended development of a formal IT asset management policy, documentation of core software licensing processes and acquisition or development of a dedicated software asset management tool. Prior to agreeing management responses we had scheduled a follow up review for 2018/19, but based on the agreed timeline for actions we have decided to defer this work to early in the 2019/20 audit programme. This is an area that ICT leadership had acknowledged as

requiring improvement and is reflected in their own reporting of risks as reported to and overseen by the ICT Board.

- 6.8 Positive progress in the development of ICT disaster recovery / aversion arrangements has progressed, as has been reported to Audit Committee. A final business case for the development of network infrastructure is being finalised as the third key aspect of the improvement programme. Internal Audit attended a site visit to one of the new twin data centres and are engaged in the Programme Steering Group so will remain close to this work as it continues over the remainder of the year.
- 6.9 In conjunction with Finance and the Shared Service Centre, Internal Audit have commissioned an external partner to review records of standard supplier payments. This work has been procured as part of an AGMA contract and is designed primarily to identify any overpayments to suppliers or unclaimed credit notes. The firm will manage the associated recovery process using data analytics and return funds to the Council on a 'no find, no fee' basis. This work is expected to begin in October 2018.
- 6.10 We are working with the Council's new external auditor, Mazars to understand their expectations and requirements. This will include a review of our strategy and approach to Core Financial Systems auditing to ensure it remains appropriate. While we remain confident that our plans are risk based and resources focused accordingly, we have asked for confirmation that they can place any necessary reliance on our work based on the process in place. We are also working with Mazars' ICT team to coordinate our assurance work in this area and maximise the benefits of our respective work over core ICT and finance controls.

## **7 Growth and Neighbourhoods; and Strategic Development**

- 7.1 A review was undertaken into concerns raised with Internal Audit over highways contracts and non-contract spend. This did confirm some areas that needed further focus and the Director is personally overseeing the response to recommendations made. Part of the response will come through a new Highways Improvement Board chaired by the Deputy Chief Executive that is overseeing a range of service development and improvement activities across the Service and will help focus corporate support functions to assist the Director and his team to accelerate actions required across a range of areas including ICT, processes, contracts, governance and finance.
- 7.2 We completed two grant certifications for the Disabled Facilities Core Grant and Top Up Grant totalling £7.1m. Both these reviews confirmed that all expenditure incurred under the grant was classified as eligible. In addition, we completed the grant certification of two grants received from the GM Combined Authority, which were the Highways Local Transport Capital Block (Pot Hole Action Fund) and the Cycle City Ambition Grant 2017/18. Both these reviews confirmed that all expenditure incurred under the grant was classified as eligible.

## **8 Procurement, Contracts and Commissioning**

- 8.1 The audit of Insurance Arrangements in Contracts was a focused review to provide assurance over the controls in place across the Council's contract portfolio to ensure sufficient cover was being maintained by contractors throughout the life of contracts. Overall we were only able to provide a limited level of assurance over the arrangements in place as contract managers did not consistently check appropriate levels of insurance were in place across the life of the contract and some were not fully aware of the expected levels and types of insurance that should be in place. There was also an over reliance on Corporate Procurement to undertake checks when in fact responsibility for this once the contract was awarded transfers to the relevant contract manager. Implementation of a recommendation in relation to defining contract managers' responsibilities around insurance cover within contracts will be achieved through the revision of contract documents and guidance and through the provision of training organised by Integrated Commissioning. This topic was highlighted in the regular contracts and commissioning bulletin that has been developed by Strategic Commissioning and has been issued to contract managers and other relevant officers across the Council
- 8.2 We provided a limited level of assurance over the processes in place for ensuring the Council's contractual suppliers had whistleblowing arrangements in place. Although the overall impact to the Council is likely to be limited with the main risk being reputational damage (as opposed to financial or operational risks) we were unable to provide a higher level of assurance due to the lack of knowledge amongst contract managers and the absence of an assurance mechanism to confirm arrangements. Recommendations to ensure the inclusion of contract managers' whistleblowing responsibilities in forthcoming training to contract managers and the amendment of the Council's standard terms and conditions to include requirements over whistleblowing will strengthen control. This is an area we will consider further as part of the planned communication and training in respect of whistleblowing arrangements and support commissioned from Protect (formerly Public Concern at Work) being delivered in quarter three.
- 8.3 For the Factory Project we provided a moderate assurance following the strengthening of the governance framework since our initial review. Decision making within the governance structure had not been fully defined and given that the project involves staff from a number of organisations with varying and occasionally conflicting levels of interest, clarity over the decision making rights of each organisation was recommended. In light of the number of bodies represented on the Board we also recommended the review of quorum requirements to include the need for at least one of the key members of the project team to be present in order for the meeting to be quorate. Further work has been requested by the SRO to be completed in year and will include a review of financial reporting arrangements
- 8.4 Terms of Reference for an audit of Social Value: Management and Monitoring have been finalised and this work will start in quarter three. It is recognised by management across the Council that more work is required to ensure



consistency of approach and the aim of this audit is to identify not just areas for improvement but to promote the positive practice we are aware of in a number of services. For example we have been recently working with the Our Town Hall Team in reviewing the approach to develop an incentive payment mechanism for the project that places a clear emphasis on a range of social value benefits, as well as the delivery of the programme to cost, quality and time standards. This will be one area we will review further to obtain assurance over how the monitoring of this contract and the realisation of social value benefits will be achieved.

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

- 9.1 Counter fraud work continued through a programme of proactive and reactive activity. Fuller details are provided in the Annual Counter Fraud report but key activity in the quarter was as follows.

### **Proactive**

- 9.2 Work continued to finalise arrangements for the introduction of an e-learning tool as part of a wider programme of counter fraud training to promote both staff and Member awareness of fraud risk. This is due to go live during quarter three and we have agreed an approach with the Communications Team to ensure that awareness of this training and of the latest counter fraud policies is promoted across the Council.
- 9.3 Council Counter Fraud Policies have been reviewed and refreshed to ensure that they remain relevant and up to date. These include a new Criminal Facilitation of Tax Evasion Policy that we have drafted and is being finalised with colleagues in Legal Services. This policy responds to requirements set out in the Criminal Finances Act 2017 to ensure that the Council has appropriate mechanisms in place to prevent and detect risks of tax evasion. These new and refreshed policies will be presented to Audit Committee for oversight and approval in December.
- 9.4 A training event provided by whistleblowing charity Protect (formally Public Concern at Work) was attended by officers from the Counter Fraud Team and Human Resources in August. A further event is being delivered to officers from Internal Audit, Human Resources and Legal Services, from Manchester as well as Bolton Council and the GMCA, during October. This will help consolidate knowledge, strengthen consistency of approach and enhance the understanding of officers who play a key role in identifying and dealing with whistleblowing concerns. Linked to this a new confidential advice line for whistleblowers has now been introduced. This service has been procured from Protect who provide independent legal advice for staff wishing to raise a concern. The Council-wide promotion of this service to all staff will form part of the communications planned for quarter three.

### **Reactive**

- 9.5 Internal Audit continued to address reported allegations of fraud or

wrongdoing following risk assessment and consideration of appropriate action. Steps to investigate were taken by Internal Audit, service management or through the application of other policies, such as corporate complaints or dispute resolution, as appropriate. In all cases Internal Audit retained an overview of the approach and outcome of investigations. The two main areas of casework and key issues arising in the period are set out below.

### **Corporate Cases**

- 9.6 Internal Audit received 18 referrals of potential corporate fraud, theft or other irregularity in the second quarter; seven of these were considered whistleblowing allegations made either anonymously or from a named source and were handled under the Council's Whistleblowing Policy and Procedure. These have been triaged, assigned and are being progressed.
- 9.7 Some of these have proven complex and have required a significant amount of audit time in the first half of the year. These include concerns raised in respect of staff compliance with organisational policies and procedures; issues raised in respect of schools; staff conduct and behaviours; contracts and contractors; and third party organisations. Progress updates and final reports are issued to the Chief Executive, City Solicitor, City Treasurer and Director of HROD and summary details will be provided to Audit Committee in 2019 as part of the Annual Counter Fraud Report.

### **Council Tax Reduction Scheme, Housing Tenancy and Right to Buy**

- 9.8 A total of 32 new referrals of fraud and irregularity in relation to Council Tax Support, Housing Tenancy Fraud and Right to Buy application fraud were received during the period June to September 2018.
- 9.9 In terms of outcomes during the quarter, the key points include:
- The Council is able to recover £1,806 of Council Tax Reduction overpayments.
  - £7,218 of wider public sector benefits, including Council Tax Benefit, Single Adult Discount, Housing Benefit and Discretionary Housing Payments has been identified as recoverable.
  - Investigation work has prevented four fraudulent applications for Right-to-Buy discount with a total value of £42,110 from being awarded.
  - Keys have been returned in relation to three properties, where it was alleged tenants were illegally subletting property. Notional value of savings is £36,000.

## **10 Recommendation Implementation**

- 10.1 Internal Audit monitored implementation of recommendations, engaging with managers to assess exposure to risk in areas where actions remained outstanding and to explore options for mitigation of risk. Overdue recommendations are reported in more detail to Strategic Directors and Executive Members for consideration at six and nine months overdue as

necessary. A separate report to Audit Committee provides details of the progress and actions to implement overdue high priority recommendations.

- 10.2 The number of critical, major or significant priority recommendations fully implemented was 54% with a further 20% partially implemented. This a slight reduction on 60% implemented and 18% partially implemented as reported to Audit Committee in July 2018.
- 10.3 The figures below show the total number of recommendations due for implementation and status of those recommendations at the end of September 2018 based on information and evidence at that time. There are a larger number of recommendations outstanding than in July but we can report that progress continues to be made and managers are generally engaged in the implementation process.

### Critical, Major or Significant Priority Recommendations by Directorate

Directorate	Number	Implemented	Partially Implemented	Referred Back to the Business	Outstanding
Corporate Core	34	16	7	5	6
Children's Services	18	10	4	0	4
Adult Services	13	6	5	0	2
Growth/Neighbourhoods	22	16	1	0	5
<b>Total</b>	<b>87</b>	<b>48</b>	<b>17</b>	<b>5</b>	<b>17</b>
		<b>54%</b>	<b>20%</b>	<b>6%</b>	<b>20%</b>

## 11. Recommendation

- 11.1 Members are requested to consider and comment on the Internal Audit Assurance Progress Report to 30 September 2018.