

**Manchester City Council
Report for Information**

Report to: Audit Committee, 23 November 2021

Subject: Internal Audit Assurance Report 2021/22

Report of: Deputy Chief Executive and City Treasurer / Head of Internal Audit and Risk Management

Summary

The Internal Audit Section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Council. This work culminates in the Annual Head of Internal Audit Opinion and an Annual Assurance Report.

This report provides an update of progress on the agreed audit plan 2021/22; additional work assigned to the audit service and copies of the audit opinions issued in the period May to October 2021. A progress update on the period prior to this was included in the Annual Audit Opinion paper presented to Committee in June 2021.

Recommendations

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

Wards Affected:

All

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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 four years after the date of the meeting and can be accessed on the Council website

- Internal Audit Plan 2021/22 (Audit Committee meeting March 2021)
- Annual Assurance Opinion (Audit Committee June 2021)
- Review of effectiveness of Internal Audit (Audit Committee Sept 2021)
- Annual Fraud Report (Audit Committee Sept 2021)

Internal Audit Assurance Report

1 Introduction

- 1.1 This report provides a summary of the work of the Internal Audit Section since May 2021 and specifically the report includes copies of executive summaries and assurance opinions from completed audits finalised between May and October 2021.
- 1.2 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 Annual Opinion. This report confirms the position on delivery of the plan which is progressing well; with final reports, draft reports and fieldwork completed on 47% of planned audits and another 19% in planning and in progress. This is a positive position at this stage of the year, particularly given that the service is continuing to respond to ongoing demands for support and assurance in a wide range of areas across the organisation.
- 1.3 Audit work is prioritised in areas of highest risk and where changes have been made to policies, strategies and systems. These factors alongside pressure across the organisation since the start of the year in driving covid response and recovery; in managing 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. Whilst this report does note areas for improvement there remains positive management engagement and commitment to agree actions and address areas of identified risk.
- 1.4 Appended to this report are:
- Appendix One: Delivery status of the annual audit plan 2021/22
 - Appendix Two: Executive summaries May 2021 to October 2021
 - Appendix Three: Basis of Audit Assessments (Opinion/Priority/Impact)

2. Audit Programme Delivery

- 2.1 The following is a summary of progress against the 2021/22 audit plan, including the completion of work carried forward from 2020/21 in this period.

Audit Status	Audit Plan Status At 31 October 2021
Final Report / Work Complete	23
Draft Report	6
Fieldwork Completed	6
Fieldwork Started	2
Planning	12

Audit Status	Audit Plan Status At 31 October 2021
Not started Δ	26
Totals	75
Cancelled / Deferred / Re-scoped Λ	2

Δ 76% of work not started is in line with plans as this was not scheduled to start until quarter 3 or quarter 4. This is due to timings agreed with auditees and to ensure assurance is provided at the right time, for example in review and support to the Annual Governance Statement process in March 2022.

Λ Flare replacement project to be deferred to 2022/23 as the project has not advanced as expected; and End User Device audit has been re-scoped for inclusion in the related review of operational device management.

- 2.2 Outputs include audits and briefing notes, as well as advice, guidance and support to management where captured in formal reports. It includes counter fraud investigations where a formal was report issued but does not include all casework outcomes.
- 2.3 In March 2021, to manage the resource pressures and uncertainty resulting from Covid, we opted for a '6+6' plan with the intention for a formal mid-year review of the strategy and plan in October. This approach enabled tighter scope focus in the first six months and allowed time to re-assess and build greater detail into the second half of the year. As a result there were two minor changes to the planned audits of Flare replacement and End User Devices as referred to above.
- 2.4 We have now consolidated our position, cleared all 2020/21 work brought forward and are progressing through the 2021/22 plan. Covid grant assurance work does however remain a pressure on resources, with required compliance checks likely to continue until June 2022.
- 2.5 The 2021/22 plan assumptions have been impacted by the further spikes in Covid19 infections and additional grant schemes announced by Government, with associated 'pre' and 'post' payment compliance requirements (as determined by the Department for Business, Energy and Industrial Strategy - BEIS), which includes continued work to identify and recover potential fraudulent requests for payment, and this is expected to continue into 2022.
- 2.6 The sections below describe the progress against the agreed annual audit plan 2021/22 and provide more detail on the grant assurance / recovery work and the deliverables to year end.

3 Resourcing and Plan

- 3.1 Work to progress the audit structure and resourcing has continued as planned with an update on the position on recruitment to posts to be provided to Audit Committee as planned in January 2022. In the interim one of our three secondees has extended their appointment for a further six months with the hope of joining the service permanently, when positions in the new structure become available.
- 3.2 There has and continues to be an impact on resources arising from staff absence due to covid and other illness, with a need to reallocate and reschedule work as a consequence. This position and the resultant risks to the delivery of the annual audit plan is being actively managed. If absence continues at current levels then the completion of some audit work is likely to be delayed until early 2022/23.
- 3.3 Audit have liaised closely with the Director and Assistant Director of Housing Operations regarding the provision of services and for scoping a programme of assurance work until year end. We have consolidated the assurance position based on risk registers, previous audit work provided by the Northwards Housing internal auditor and through workshops. Housing Operations are using an external consultant to undertake health checks on statutory compliance, and management have recently completed their “100 day” integration plan from which we are able to take assurance. As governance arrangements develop and are established, we intend to undertake work on housing asset management / investment and having recently delivered a management workshop are working with the team to develop awareness and confidence in the Council’s whistleblowing and related counter fraud policies.
- 3.4 We continue to utilise Salford City Council ICT audit team on work within our ICT assurance portfolio and this is largely progressing in line with agreed plans. In conjunction with the Director of Capital Programmes we also commissioned an external consultant to undertake a review of programme and cost management arrangements across the capital programmes and highways services. Whilst this was not a formal audit, it was used to support a September 2021 report to Resources and Governance Scrutiny Committee and the findings and conclusions from this work has fed into our assessment of assurance.

4 Children’s Services and Education

School Financial Health Checks

- 4.1 We have finalised three school audit reports (St Philips, Martenscroft Nursery and Collyhurst Nursery) and two are in the process of being drafted (All Saints Newton Heath and Divine Mercy).
- 4.2 All three schools where final reports have been issued have received limited assurance opinions. Issues identified include key financial duties not being completed or not completed in a timely fashion and a lack of compliance with key financial procedures. Covid pressures are likely to have contributed to some

of the lapses in control we have seen, however the extent of non-compliance, including examples of where segregation of duties was insufficient, is concerning. We have made appropriate recommendations for improvement and will track these through to implementation, with Head Teachers and School Business Managers.

- 4.3 It is evident that some of the non-compliance within schools is attributable to the pandemic and school business managers being under pressure with competing priorities. As a result standard financial processes, such as completion of bank and payroll reconciliations and raising purchase orders have not always been followed. We have seen an increase in the use of debit cards to facilitate quicker payments, and less compliance with the delegations / authorised signatories. We do not consider this is an indication of financial mismanagement, merely an indication of mitigations that were necessary during lockdown. The schools accept our assurance opinions and recommendations for control improvement and are working towards returning to pre covid arrangements.
- 4.4 Given the limited assurance opinions and to offer support to schools on common challenges and areas for improvement resulting from audit work, Internal Audit will attend the Education Finance Consultancy annual conference from 17-18 November, to update attendees on themes arising from financial health checks and to promote practice improvement. We are also using this opportunity to incorporate sessions on how to identify and reduce fraud and irregularity, and best practice regards data handling and data protection; Information Commissioner requirements and ongoing GDPR compliance.
- 4.5 We have agreed to complete 12 days audit work for the Education Leadership Trust during this quarter which will commence mid-November.

Supporting Families

- 4.6 We issued a final report for our audit of Supporting Families. We were asked to provide assurance to GMCA over Manchester's use of Supporting Families funding, in line with the agreed Audit and Monitoring Framework; to enable GMCA to provide onward assurances to the then Ministry for Housing, Communities and Local Government (MHCLG) that GM Local Authorities were meeting the minimum expectations of the national programme.
- 4.7 Overall, we provided reasonable assurance that local systems were designed to support the delivery of the Supporting Families Programme and that there were appropriate levels of compliance with the key requirements and standards of the updated framework.
- 4.8 We rated seven of ten process areas as 'green' and three as 'amber' where there was some scope for improvement in the documentation of lessons learned from the pandemic and in the development of a formal action plan to help support the delivery of priorities identified in a programme self assessment. We also noted that eligibility for Supporting Families funding was not determined up-front at the referral stage, but rather after the interventions were complete. Whilst this is a deviation from the standard GM process it was a decision taken

by management to ask practitioners to base their offer on providing the right support according to need, rather than Supporting Families criteria or a 'tick box' exercise.

Client Financial Services – Appointeeships

- 4.9 We are in the process of drafting an audit report for our audit of appointeeships within client financial services. This audit has identified inconsistencies over the handling of cash in area offices, when client's personal allowances are being administered. Some of this has been caused by pandemic restrictions and need for paperless workarounds, however we have identified process improvements that are needed to ensure an effective system of control and achieve greater efficiency.

5 Corporate Core and Information Governance

Information and ICT

- 5.1 So far in 2021/22 we have continued to support a number of key Council projects that have a core ICT element, including Data Centre Optimisation, Payment Card Industry Data Security Standard (PCI DSS) and work to improve joiner / mover / leaver processes. We have agreed the scope for an audit on Vulnerability Management, which is scheduled for completion in January 2022 and have started work on an information governance audit, which will be centred on assurance over the area of privacy notices.
- 5.2 Following a review of risk associated with the End User Device project we have revised the scope of work planned in this area. We had originally planned assurance over project governance and management but based on our planning we are assured that arrangements in this respect are appropriately designed and managed. As a result we have rescoped the work to focus on the effectiveness of operational controls over device replacement and this work is now underway.

Core Systems

- 5.3 Significant resource has continued to be required to support Restart Grants payments and the continuing group of local schemes funded through the Additional Restrictions Grant. We have begun planning local activity to scope any required post payment assurance in relation to all schemes, including the required support to meet the mandatory requirements now specified by BEIS. Work will be required in this area until June 2022. We have also supported the reconciliation processes required by BEIS and led by Corporate Finance.
- 5.4 We have completed grant certification work in relation to two European grants (ABCitiEs and C-Change) in line with required timescales. No issues were identified as a result of this work. We have also provided advice on the record keeping for a third smaller project where no certification was required (the Synergy project). We issued a short note to confirm the outcomes of our review of Council spend with the Voluntary, Community and Social Enterprise (VCSE)

sector. Again, no systemic inaccuracies were identified.

- 5.5 We are currently exploring options to commission a further payment recovery exercise; reviewing standard payments made by the Council between 1 June 2019 and 1 June 2021. The previous exercise led by Internal Audit with support from finance colleagues reviewed five years of payment data and returned approximately £380k back to the Council. We are working with Finance to explore how the use of other software solutions and the emergent project for the replacement of the core financial system can be utilised to further minimise the risk of duplicate or overpayments.

Estate Services Review

Following a leadership restructure and the move from Growth and Development to Corporate Services earlier in 2021 we agreed to present an overview of the arrangements for prioritisation, planning and performance management within the Estates Service. This was not an audit but we did obtain assurance from this work as it concluded that there was clarity over the priorities of the service and arrangements were in place to manage delivery of these.

- 5.6 We were satisfied that there were proposals to develop the performance management framework further, which should help to manage ongoing delivery of priorities and objectives. We support the refresh and reestablishment of the functions of the former Estates Board to ensure there is a strong oversight for estates activity and we consider that the fulfilment of this role by the Strategic Capital Board is a positive move that will further develop the coordination between the delivery of estates related priorities and the associated funding and capital requirements that link to these.

Grant Certifications

- 5.7 Formal certifications of grant funded expenditure were provided for the following we no adverse opinions or matters of concern noted:
- MHCLG for the Covid-19: Local authority compliance and enforcement grant (£453k) ringfenced for activity to support compliance and enforcement of measures to control the spread of Covid-19 across individuals, businesses and in the community.
 - Department for Digital, Culture, Media and Sport (DCMS) for the Culture Recovery Fund grant (£882k) to support cultural and heritage organisations impacted by Covid-19 as they transition back to a viable operating position.
 - MHCLG on for the Disabled Facilities Grant Annual funding (£7,476k) and Additional Funding (£1,007k) to support older and disabled people to live as independently and safely as possible in their own homes.

Our Town Hall – Management of Work Package Delivery and Payments

- 5.8 We provided a reasonable assurance opinion over the arrangements in place to ensure the effective management of work packages. There was a robust change process in place, driven by input and communication between the key

parties involved and there were adequate systems for evidencing and managing any changes agreed and approved.

- 5.9 In determining the overall cost of the work packages selected it was evident that there were differences in the presentation of the cost information by the management contractor and the appointed quantity surveyor. We therefore recommended an action for the Project Team; to confirm the Construction Cost Report figures are in alignment with those maintained by the management contractor.

Capital Programmes

- 5.10 In March 2021 Internal Audit, in conjunction with the Directors of Capital Programmes and Highways, commissioned an independent review of the Council's capital programme with a focus on Financial Management and Investment Planning; Programme Governance and Reporting; and Management of Project Delivery. This work was completed and fed into a report to Resources and governance Scrutiny Committee in September 2021. The review highlighted opportunities to further standardise and promote consistency of approach across different aspects of the capital programme in areas such as financial planning, risk management and reporting. This work and the findings from other audit and assurance work is to be used as the basis of workshops to be facilitated by Internal Audit with key stakeholders to review and agree improvement and development actions. This will include engagement with capital programmes, highways, ICT and the new Director of Strategic Development and relevant members of her team.

6 Neighbourhoods; Growth and Strategic Development

Highways Compensation Events Review

- 6.1 We undertook a review to provide assurance over the current controls to ensure the effective management of compensation events (CEs) within highways contracts and provided a reasonable opinion. Our sample testing identified there was a clear process for CEs and template letters covering the notification, quotation, assessment and implementation of CEs to promote consistency in approach across the various projects.
- 6.2 Many of the sample of CEs reviewed related to a change in design indicating that the number could be reduced through a greater certainty and agreement of design at the tender stage although we recognise that issues such as the requirement for external funding bodies to approve designs, does introduce complexity in the design process. Similarly, we acknowledge the considerable timelines associated with such complex projects but highlighted the importance of checkpoints to ensure the design remains as accurate as possible before costs are committed.
- 6.3 We concluded that further development of the quality assurance framework was needed; to identify further means of providing assurance and confidence over the development of project budgets, the management of CEs and to facilitate a

move to the management of CEs from within approved project budgets. This could be supported through sample checks, analysis and reporting of CEs. Sample testing highlighted the need for improvements to the completeness of the evidence trail supporting the communication between the Council and the contractor at key stages of the CE process, particularly where this would have been within officers' email accounts who had subsequently left the Council and had not saved key correspondence within the project folder.

- 6.4 Management actions have been agreed and should help to reduce overall risk in this area, we plan to revisit progress at the end of the financial year.

Avro Hollows

- 6.5 Following a request from managers in Housing Strategy, we recently undertook a review of operational arrangements in place at Avro Hollows Tenant Management Organisation (TMO), including repairs, anti-social behaviour, fire risk assessments and disrepair claims. A report detailing the outcomes of our work will be published to management shortly.

7 Procurement, Contracts and Commissioning (PCC)

Waivers and Contract Extensions

- 7.1 We recently issued the draft report for our review of waivers and contract extensions. Our testing concluded that ongoing work is required to strengthen the process for submitting, recording, scrutinising and approving waivers and contract extensions. Whilst positive changes in system and processes were observed, there were examples of waivers that lacked fully documented evidence of consultation, approval, scrutiny and challenge over waiver requests and contract extensions.
- 7.2 Clarity was needed on the contract authorisations prescribed by the Constitution, as three of 14 sampled waiver reports and two thirds of extension reports did not have the correct signatures. We acknowledge and agree that the Constitution in its current form is considered too restrictive in some areas and does not always allow for the appropriate signatories and levels of sign off. Some of the signatories in our sample testing were not constitutionally correct but were obtained at appropriately senior levels. This audit therefore demonstrates the need for a review of the levels of decision making within the Constitution and reaffirms the importance of forward planning that the Integrated Procurement and Commissioning (ICP) are continuing to support directorates to develop. The actions to respond to these observations are to be discussed with the ICP Service in November.

Supplier Relief

- 7.3 The government issued a number of Procurement Policy Notes (PPN) during 2020 for contracting authorities to act on, to support suppliers at risk of financial collapse as a result of the Covid 19 pandemic. This enabled the Council, through its contract managers, to work with contractors providing relief against current contractual terms and supporting suppliers to maintain

their cashflow and reduce the risk of suppliers suffering financial difficulty. We are able to provide a reasonable level of assurance over the effectiveness of the process for recording supplier relief. The Integrated Commissioning and Procurement (ICP) team responded quickly following the publication of the PPNs to produce and make accessible corporate guidance, templates and a register for use by the Council's contract and commissioning officers. Advice and guidance and additional support was also provided by ICP officers where required during this time.

Supplier Due Diligence

- 7.4 We provided a reasonable level of assurance over the developing arrangements to ensure that effective assessment of suppliers' financial resilience is undertaken. Whilst we concluded that financial due diligence checks were undertaken during open or restricted tender exercises and a risk rating assigned, the financial checks undertaken post contract award were more limited and not in accordance with corporate guidance recommending the assessment of financial resilience either annually or bi-annually dependent on the criticality rating of the contract.
- 7.5 An increased level of focus has been given to assurance over suppliers and recent developments have included the establishment of a Due Diligence Working Group, reporting to the Commercial Board. Its role is to develop suitable due diligence processes and drive a consistent and well embedded approach across the Council. Additionally, systems and processes have been strengthened giving contract and commissioning officers access to a credit report agency to enable them to proactively monitor suppliers' financial resilience throughout the life of the contract.
- 7.6 We made a number of recommendations around the enhancement and dissemination of guidance, the progression of the proposed framework overseen by the Due Diligence Working Group having slipped during the pandemic. Recommendations also address the improvement of contract registers, to include criticality rating and credit rating scores and the inclusion of contingency arrangements for critical/key contracts within Business Continuity Plans, should there be supplier failure. Management agreed all recommendations and are actively driving change which should reduce risk.

8 Counter-Fraud and Investigations

Proactive

- 8.1 Work has commenced and will continue into quarter four, on the review and refresh of Counter Fraud Policies.
- 8.2 A Counter Fraud Training workshop was undertaken with Housing Operations to support colleagues in understanding anti-fraud and corruption policies, including money laundering, and how the whistleblowing process works. We are planning further sessions with directorate leadership teams and key services in early 2022.

Reactive

Corporate Cases

- 8.3 Internal Audit have received 44 referrals of potential fraud or irregularity during the year to date. Of these 9 were considered whistleblowing allegations made either anonymously or from a named source and have been handled under the Councils Whistleblowing Policy and Procedure.
- 8.4 The nature of this work has remained consistent including concerns raised in several key risk areas including staff conduct, contractor conduct and performance, ethics and behaviours, employee compliance with procedures and theft from schools.

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

- 8.5 During 2021/22 Internal Audit have received 31 referrals of potential fraud or irregularity in relation to the Covid19 Business Support Grants. Due to the values involved this portfolio remains a key area for investigation and cases are being progressed positively in line with BEIS requirements.
- 8.6 As fewer new referrals within this area are received the Counter Fraud Team have re-commenced investigation work in relation to other portfolio areas previously paused in March 2020 as a result of the Covid response work. Interviews under caution, a key part of the investigation process have also recommenced.
- 8.7 A total of 32 referrals of fraud or irregularity in relation to the Council Tax Reduction Scheme have been received in the year to date. There have been 29 referrals received in relation to Housing Tenancy and Right to Buy. These figures are broadly in line with previous years.
- 8.8 An individual who previously pleaded guilty to three offences of illegally subletting a property and two accounts of failing to disclose a change of circumstance (under CTRS offences) was sentenced at Magistrates Court in September. The former Southway Housing tenant received a 14-week custodial sentence suspended for 12 months, was fined £10k and ordered to pay a victim's surcharge of £122. The Council were awarded costs of £1,840 and an unlawful profit order of £2,160 was awarded to Southway Housing.

9 Recommendation

- 9.1 Audit Committee is requested to consider and comment on the Internal Audit Assurance Progress Report to 31 October 2021.