

**Manchester City Council  
Report for Information**

**Report To:** Audit Committee – 25 July 2023

**Subject:** Internal Audit Assurance Update - Quarter 1 (2023/24)

**Report of:** Head of 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 and details of assurances from the Internal Audit Service for quarter one 2023/24.

**Recommendations**

Audit Committee is requested to consider and comment on the Internal Audit Update report.

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**Wards Affected: All**

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<b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the City
None

<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
None

<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 Our Manchester 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

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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. If you would like a copy, please contact one of the contact officers above.

1. Internal Audit Plan 2023/24 (Audit Committee June 2023)

## **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.
- 1.2. Regular reporting to management and to the Audit Committee provides assurance over the Councils systems of governance, risk management and internal control arrangements. It contributes to officer and Member understanding of issues being raised by Internal Audit, provides assurance over actions taken to address risk and supports effective decision making. Regular reporting also helps the service and the Council to demonstrate compliance with Public Sector Internal Audit Standards and relevant legislation.
- 1.3. This is a new format of report that is designed to be more visual and incorporate other assurances available to Internal Audit. The aim of this is to communicate the findings of audit work but also other sources of assurance that can be used in assessing the effectiveness of governance, risk and control.
- 1.4. The tables in section 3 will be used to summarise the results of planned and reactive audit work delivered by the Service but also, for example, an assessment of assurances provided by officers to boards, of other audits and inspections and reports to scrutiny committees. Details of the findings and recommendations that arise from audit work continue to be included as appendices to the report.
- 1.5. This report provides details of the work of the Internal Audit Section for the first quarter of 2023/24 to June 2023 and confirms;
  - progress in the delivery of the annual audit plan (section 2); and
  - key assurances, risks and issues arising from audit work, assessment of other sources of assurance and actions taken to address internal audit recommendations (section 3).
- 1.6. Appended to this report are:
  - Appendix 1: Summary of audit findings and other sources of assurance
  - Appendix 2: Executive summaries of final reports issued in the period
  - Appendix 3: Delivery status of the annual audit plan 2023/24
  - Appendix 4: Key to the basis of audit assessments

## **2. Audit Plan Progress and Delivery**

- 2.1. We have completed 22% of the plan to draft or final report stage, with 29% of work in fieldwork or planning phases.
- 2.2. The number of outputs will increase in the year as block allocations for schools, ICT and grant certifications are allocated to specific audits or reviews.

**Table 1: Status of Planned Audit Outputs 2023/24**

<b>Status</b>	<b>July 2023</b>
Final	13
Draft	2
Fieldwork	10
Planning	10
Not Started	34
<b>Total</b>	<b>69</b>
Deferred	0

- 2.3. The plan is based on reasonable assumptions of available staffing resources but securing capacity and capability for the audit team is a priority having completed the service restructure.
- 2.4. It is disappointing that two attempts to recruit to the vacant Deputy Head of Audit and Risk Management post have proven unsuccessful, as were steps to secure some short-term support through agency. Other short term resourcing options are being progressed but recruiting to permanent posts is the key focus.
- 2.5. There is a plan in place to deliver a recruitment campaign for the Deputy post, three vacant posts in Internal Audit and other posts across the Audit and Risk Management Service. An approach has been agreed and will be progressed with HROD support in the next quarter and Audit Committee will be updated on progress.
- 2.6. Whilst work in relation to Council Tax and housing fraud referrals recommenced last year there is a backlog of referrals which is legacy of the redirection of resources to deliver covid19 business grant assurance and investigation work. To assist with this, a 6-month development placement was offered to an officer from Revenues and Benefits that started in April 2023.

### **3. Audit Assurance, Risks and Issues**

- 3.1. The tables in appendix 1 summarise all the outcomes of audit work and other sources of assurance that Internal Audit have considered in the period. They are intended to provide a holistic and visual articulation of audit assurance. They describe assurances and risks / issues and Internal Audit's assessment of how it contributes to the overall assessment of the effectiveness of governance arrangements, management of corporate risks and systems of internal control.
- 3.2. Where audit work has been completed and an opinion issued this is included. Opinions continue to be Substantial, Reasonable, Limited or No depending on audit findings.
- 3.3. From work in the first quarter, the key assurances and issues that have been highlighted from audit work and other sources of assurance are as follows:

#### **Payment Systems and Processes**

- 3.4. There are ongoing issues and a backlog of payments to providers that have arisen where invoices received do not match the initiating orders on the social care system (Liquid Logic) within Adults and Children's Services. The levels of unpaid invoices have continued to increase since our audit of Adults payments in 2022/23. In response to these ongoing concerns a cross Council project and a new brokerage team has been established in Adults Services with a remit to address concerns, some of which are likely to include changes to roles, responsibilities systems and processes. We have also included time to provide further support in this area in the 2023/24 audit plan.
- 3.5. We will also continue to provide support and seek assurance over progress in addressing issues raised in our audit of foster care payments in relation to the lack of current reporting mechanisms to provide assurance over the accuracy of payments and support identification of potential duplicate and overpayments. In our recent audit we have recommended that a cross Council working group is established to try to find a solution to address these issues. Upon receipt of the draft audit report the Strategic Director for the Children and Education Directorate immediately asked the Deputy Director to lead and develop the recommended working group.
- 3.6. Some of the solutions to these issues require improved accuracy of initial recording and management oversight of data quality to ensure that care packages and volumes of support are correct. Another area of data quality concern raised by management was in respect of the early years and education system (EYES) that had been designed to consolidate data sets from across Children's services into a single system. This approach was intended to provide a consolidated view of children and young people and support effective delivery of services but has resulted in a high number of duplicate records. The volume of entries needing correction is very high, so work is being led by Children's Services with support from ICT and Performance and Intelligence teams to address this issue.

### **Schools SFVS and Related Parties**

- 3.7. We have recently completed the annual School Financial Value Standard (SFVS) certification for submission to the DfE. We received fully completed SFVS returns from all 108 maintained schools who were required to complete the Standard. This provided assurance that Governing bodies had reviewed key finance and governance arrangements within schools and meant we could provide assurance to the DfE over compliance with the Standard.
- 3.8. The DfE required the Council to obtain details from schools of any related party transactions and declare a level of assurance over controls in place for any such transactions valued over £20,000. Two of those highlighted by schools were over £20,000 and were declared on the return to the DfE. We were not satisfied with the controls over one of these (valued at £74,509) as there had been no procurement exercise to confirm value for money and the decision to appoint the supplier had not been scrutinised by Governors. We wrote to the Head Teacher and Chair of Governors to outline concerns and recommended

actions to improve controls.

- 3.9. As part of ongoing support for good governance, a 'counter fraud for schools' e-learning module has been procured and is due to be rolled out in the next quarter. This is aimed at School Business Managers, Headteachers and Governors. Monitoring of training completion rates will be undertaken which will help provide assurance that those tasked with financial and decision-making responsibilities within Schools are aware of the inherent fraud risks, the need for strong internal controls and know how to raise concerns when needed.

### **Housing Services**

- 3.10. Housing Services remains an area of high challenge with concerns noted regarding statutory compliance and in particular the arrangements for responding to reports of damp and mould and management of fire risk assessments. The Housing Regulator is being kept up to date on progress and governance of these areas has improved through the establishment of management and member oversight groups and a disciplined approach to improvement planning and monitoring. Whilst these are positive steps it is essential that management action is sustained to ensure that all statutory compliance issues including those raised by residents and identified through fire risk assessments are addressed.
- 3.11. This was a key message in the limited assurance opinion on fire risk assessments. It was clear that issues were understood and management agreed actions to develop a fire risk strategy and approach to address the current backlog of actions but also ensure that there is an agreed Council-wide approach for all future compliance and fire risk assessments and the management of risk across all areas of Council-owned housing.

### **Commercial and Contracts**

- 3.12. Reasonable assurance opinions were provided for an audit of Contract Risk Management and for the Management of Work Package Delivery and Payments on the Factory Project. Contracts, commercial arrangements and partnerships were areas of focus for management and members in the quarter, with reports to Resources and Governance Scrutiny Committee, Audit Committee and Executive providing assurance that there remains a high level of focus, challenge and oversight of activity in these areas.

### **Climate Change**

- 3.13. A reasonable assurance opinion was issued in the quarter on climate change action planning. Other reports to Strategic Management Team and to Scrutiny Committee also demonstrated positive oversight and governance of action planning, monitoring and reporting although reports did highlight the challenges in achieving targets at a City-wide, national and international level as a remaining a significant risk.

## **4 Recommendation**

4.1 Audit Committee is requested to consider and comment on the Internal Audit Update report.